

In the opinion of Katten Muchin Rosenman LLP and Gonzalez, Saggio and Harlan, L.L.C., Co-Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Bonds will not be includable in gross income for federal income tax purposes. The Bonds are not “private activity bonds” and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate “alternative minimum taxable income.” However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Bonds is not exempt from Illinois income taxes. See “TAX EXEMPTION” herein.



\$262,785,000
BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues), Series 2007A
Auction Rate Securities



Dated: Date of Issuance	Price: 100%	Consisting of the following Sub-series:	Due:
		\$ 81,785,000 Series 2007A-1	December 1, 2028
		\$ 81,000,000 Series 2007A-2	December 1, 2028
		\$100,000,000 Series 2007A-3	December 1, 2030

This Official Statement contains information relating to the Board of Education of the City of Chicago (the “Board”) and its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A (the “Bonds”) and describes the Bonds while bearing interest in the Auction Rate Mode. Purchasers of the Bonds should not solely or exclusively rely on this Official Statement for information relating to the Bonds bearing interest in the Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Mode. If any Bonds are converted to a Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Mode, it is expected that the Board will supplement this Official Statement or deliver a new Official Statement or other disclosure documents describing the Bonds bearing interest in the Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Mode.

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Principal of and interest on the Bonds will be paid by Amalgamated Bank of Chicago, Chicago, Illinois as trustee, registrar and paying agent for the Bonds to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See “THE BONDS—Book-Entry Only System” herein.

The Bonds will be initially issued in the Auction Rate Mode. The Bonds are issuable in denominations of \$5,000 and any integral multiples thereof. The Bonds shall bear interest from and including the Date of Issuance until payment of the principal or redemption price thereof shall have been made in accordance with the provisions hereof. The Bonds will be issued in three Sub-series (each, a “Sub-series”) as identified above. Each Sub-series will bear interest for the applicable Initial Interest Period (from and including the date of issuance to and including the applicable Initial Auction Date) at the applicable Initial ARS Rate as defined herein. After the applicable Initial Interest Period, the Bonds will bear interest at the ARS Rate determined pursuant to the Auction Procedures for the appropriate Auction Period until a conversion to another Auction Period, or until an Adjustment Date as described herein.

The Bonds are subject to optional and mandatory sinking fund redemption as described in this Official Statement. The Bonds in the Auction Rate Mode are subject to mandatory purchase upon conversion, at the option of the Board, to a Weekly, Flexible, Term or Fixed Rate Mode.

The proceeds from the sale of the Bonds, together with certain moneys of the Board, will be used to currently refund a portion of the Board’s outstanding Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A. See “PLAN OF REFUNDING,” “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS.”

The Bonds will be general obligations of the Board to the payment of which the Board has pledged its full faith and credit. The Bonds will be payable from Pledged Revenues (defined herein), consisting of amounts paid to the Board by the City of Chicago (the “City”) pursuant to an Intergovernmental Agreement between the City and the Board (the “Intergovernmental Agreement Revenues”) and the pledged Personal Property Replacement Tax (“PPRT”) Revenues (the “Pledged PPRT Revenues”). The Pledged PPRT Revenues together with the Intergovernmental Agreement Revenues constitute the “Pledged Revenues”, all as more fully defined herein. To the extent that the Pledged Revenues are insufficient to pay the debt service on the Bonds, each Sub-series of the Bonds will be payable from certain ad valorem taxes levied by the Board for specified tax years, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board (the “Pledged Taxes”), the boundaries of which are coterminous with the boundaries of the City of Chicago. The Bonds are also payable from certain Funds, Accounts and Sub-Accounts (as defined in Appendix B hereto) established pursuant to the Indenture (as defined herein) and pledged as security for the Bonds. See “SECURITY FOR THE BONDS.”

The scheduled payment of principal of and interest on each Sub-series of when due will be insured by a financial guaranty insurance policy (the “Policy”) issued simultaneously with the delivery of the Bonds by Ambac Assurance Corporation (the “Bond Insurer”). See “BOND INSURANCE.”

Ambac

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of separate approving legal opinions of Katten Muchin Rosenman LLP, Chicago, Illinois, and Gonzalez, Saggio and Harlan, L.L.C., Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel Patrick J. Rocks, and by its special counsel Steve Lawrence & Associates, PC., Chicago, Illinois; and for the Underwriters by their Co-Counsel, McGuireWoods LLP, Chicago, Illinois, and Charity & Associates P.C., Chicago, Illinois. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about September 5, 2007.

Banc of America Securities LLC

RBC Capital Markets

A.G. Edwards
Morgan Stanley

Merrill Lynch & Co.
Loop Capital Markets, LLC

August 24, 2007

\$262,785,000

BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues), Series 2007A
Dated: Date of Issuance

Price: 100%

Sub-series designation	2007A-1	2007A-2	2007A-3
Principal Amount	\$81,785,000	\$81,000,000	\$100,000,000
CUSIP No. ¹	167505BB1	167505BC9	167505BD7
Maturity Date	12/01/2028	12/01/2028	12/01/2030
Last Day of Initial Interest Period	09/18/2007	09/13/2007	09/12/2007
First Auction Date	09/18/2007	09/13/2007	09/12/2007
First Interest Payment Date	09/19/2007	09/14/2007	09/13/2007
Initial Auction Period	14 days	9 days	8 days
Subsequent Auction Periods.....	7 days	7 days	7 days
Auction Day (Generally)	Tuesday	Thursday	Wednesday
Subsequent Interest Payment Days (Generally)....	Wednesday	Friday	Thursday
Initial Broker-Dealers.....	RBC Capital Markets A.G. Edwards Loop Capital Markets Merrill Lynch Banc of America Securities	Banc of America Securities RBC Capital Markets Loop Capital Markets Merrill Lynch Morgan Stanley	Banc of America Securities RBC Capital Markets Morgan Stanley A.G. Edwards

Prospective purchasers of the Bonds should carefully review the Auction Procedures described in APPENDIX F of this Official Statement, and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone, facsimile transmission or other similar electronic means of communication and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Beneficial interests in each Sub-series of Bonds may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through the respective Broker-Dealers listed above.

¹ The CUSIP numbers shown above have been assigned to this issue by an organization not affiliated with the Board and are included for the convenience of the holders of the Bonds only. The Board is not responsible for the selection of CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

REGARDING USE OF THIS OFFICIAL STATEMENT

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

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

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

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

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

Certain capitalized terms used in this Official Statement and in the Indenture are defined in APPENDIX B and unless otherwise indicated shall have the respective meanings set forth therein.

Other than with respect to information concerning Ambac Assurance Corporation (the “Bond Insurer”) contained under the caption “BOND INSURANCE” and APPENDIX-E—“SPECIMEN BOND INSURANCE POLICY” herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or

implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

This Official Statement contains disclosures which contain “forward-looking statements.” Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” or “continue.” These forward-looking statements are based on the current plans and expectations of the Board and are subject to a number of known and unknown uncertainties and risks, many of which are beyond its control, that could significantly affect current plans and expectations and the Board’s future financial position including but not limited to changes in general economic conditions, demographic trends and federal and State funding of programs which may affect the transfer of funds from such governments to the Board. As a consequence, current plans, anticipated actions and future financial positions may differ from those expressed in any forward-looking statements made by the Board herein. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement.

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

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President

Clare Muñana
Vice President

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Dr. Tariq Butt
Alberto A. Carrero, Jr.
Peggy A. Davis
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Barbara Eason-Watkins
Chief Education Officer

M. Hill Hammock
Chief Administrative Officer
Chief Operating Officer

Pedro Martinez
Chief Financial Officer

Heather A. Obora
Chief Purchasing Officer

Patrick J. Rocks
General Counsel

Katten Muchin Rosenman LLP
Gonzalez, Saggio and Harlan, L.L.C.
Co-Bond Counsel

A.C. Advisory, Inc.
Financial Advisor

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\$262,785,000

**BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A**

**Consisting of
\$ 81,785,000 Series 2007A-1
\$ 81,000,000 Series 2007A-2
\$100,000,000 Series 2007A-3**

INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the “Board”) of its \$262,785,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A (the “Series 2007A Bonds” or the “Bonds”) consisting of \$81,785,000 aggregate principal amount of Series 2007A-1 Bonds (the “Series 2007A-1 Bonds”), \$81,000,000 aggregate principal amount of Series 2007A-2 Bonds (the “Series 2007A-2 Bonds”), and \$100,000,000 aggregate principal amount of Series 2007A-3 Bonds (the “Series 2007A-3 Bonds”). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as assigned thereto in APPENDIX B—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” and, with respect to certain terms related to the ARS Bonds, APPENDIX F—“AUCTION PROCEDURES.”

This Official Statement describes only the terms and provisions applicable to the Bonds while in the Auction Rate Mode. If the Interest Mode applicable to the Bonds is changed to the Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Mode, it is expected that the Board will supplement this Official Statement or deliver a new official statement or other disclosure document describing the Bonds in the Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Mode. Purchasers of the Bonds should not solely or exclusively rely on this Official Statement for information relating to the Bonds bearing interest in the Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Mode.

The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit. The Series 2007A-1 Bonds and the Series 2007A-2 Bonds are authorized and issued pursuant to the School Code, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and Resolution No. 06-0628-RS78 adopted by the Board on June 28, 2006 (the “2006 Authorization”) as supplemented by Resolution No. 06-0927-RS4 adopted by the Board on September 27, 2006 (the “2006 Bond Resolution”) and Resolution No. 07-0725-RS5, adopted by the Board on July 25, 2007 (the “2007 Supplemental Resolution”). The Series 2007A-3 Bonds are authorized and issued pursuant to the School Code and the Local Government Debt Reform Act and Resolution No. 98-0826-RS7 adopted by the Board on August 26, 1998 (the “1998 Authorization”) as supplemented by Resolution No. 05-0622-RS76 adopted by the Board on June 22, 2005 (the “2005 Bond Resolution”) and the 2007 Supplemental Resolution. The 1998 Authorization, the 2006 Authorization, the 2005 Bond Resolution, the 2006 Bond Resolution and the 2007 Supplemental Resolution are herein collectively called the “Bond Resolutions”. The Bonds are being issued under a Trust Indenture, dated as of September 1, 2007 (the “Indenture”), by and between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee, registrar and paying agent (the “Trustee,” “Registrar” and Paying Agent”). The Bonds are issued as “alternate bonds” under the Local Government Debt Reform Act for the purpose of refunding bonds of the Board that were issued for the purpose of raising moneys to construct, acquire and equip school and administrative buildings, site improvements and other real and personal property in

and for the school district governed by the Board. The Bonds will be secured by and are payable (i) from the Pledged Revenues (as defined herein) (ii) to the extent that the Pledged Revenues are insufficient to pay the debt service on the Bonds, each Sub-series of the Bonds will be payable from certain ad valorem taxes levied by the Board for specified tax years, pursuant to the Resolutions, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount (the “Pledged Taxes”) and (iii) from all Funds, Accounts and Sub-Accounts established pursuant to the Indenture other than Escrow Funds, (i) provided that (x) the 2005 Sub-Account of the Pledged Taxes Account shall be held exclusively for the payment of the Series 2007A-3 Bonds, and related Swap Payments and (y) the 2006 Sub-Account of the Pledged Taxes Account shall be held exclusively for the payment of the Series 2007A-1 Bonds, the Series 2007A-2 Bonds and related Swap Payments and (ii) with the exception of the Bond Purchase Fund (which shall be held exclusively for the payment of the purchase price of Tendered Bonds), the Swap Payment Account and the Program Expense Fund (as these accounts and terms are defined in APPENDIX B—“SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE”).

The Pledged Revenues for the Bonds consist of the following: (i) those amounts allocated and paid to the Board from the Personal Property Replacement Tax Replacement Fund of the State of Illinois pursuant to Section 12 of the State Revenue Sharing Act of the State of Illinois, as amended, or from such successor or replacement fund or act as may be enacted in the future (the “Personal Property Replacement Tax Revenues”) remaining after (x) any required allocation thereof to provide for the payment of those claims, currently for pension or retirement obligations, that are required to be paid from the Personal Property Replacement Tax Revenues prior to any other application or use thereof pursuant to Section 12 of said State Revenue Sharing Act, or such successor or replacement act as may be enacted in the future (the “Statutory Claims”) and (y) any required allocation thereof to provide for the payment of the Board’s outstanding \$52,650,000 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 (the “Series 1996 Bonds”) and outstanding \$71,285,000 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997 (the “Series 1997 Bonds”) (the “Pledged PPRT Revenues”); and (ii) those amounts paid to the Board pursuant to an Intergovernmental Agreement (the “Intergovernmental Agreement”) dated as of October 1, 1997, by and between the Board and the City of Chicago (the “Intergovernmental Agreement Revenues”). For additional information see “SECURITY FOR THE BONDS – General,” “– Intergovernmental Agreement Revenues” and “– Personal Property Replacement Taxes.” For a discussion of obligations of the Board payable from the Board’s annual receipt of Personal Property Replacement Tax Revenues and Intergovernmental Agreement Revenues, see “– Prior Alternate Bonds” below.

The proceeds from the sale of the Bonds, together with certain moneys of the Board (the “Board Deposit”), will be used to currently refund a portion of the Board’s outstanding Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A maturing in the years as shown on APPENDIX G. Specifically, the Bonds are being issued by the Board to refund, defease and redeem on December 1, 2007, \$262,785,000 outstanding principal amount of the Series 1997A Bonds, consisting of the \$141,455,000 aggregate principal amount of the Series 1997A Bonds maturing on December 1, 2030 and \$121,330,000 aggregate principal amount of the Series 1997A Bonds maturing on December 1, 2027 (the “Refunded Bonds”). See “PLAN OF REFUNDING,” “PLAN OF FINANCE” AND “SOURCES AND USES OF FUNDS.”

The Bonds will bear interest initially in the Auction Rate Mode payable on as shown the inside cover. On the date of issuance of the Bonds, two interest rate swap agreements with Initial Swap Providers (as defined herein) shall become effective. The Board has entered into the Series 2007A Swap Agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and (2) limiting interest rate risk inherent in variable rate debt. See “THE BONDS—Interest Rate Swap Agreements.” The Swap Payments to be made by the Board under the interest rate swap agreements are payable from the Pledged Revenues and Pledged Taxes on a subordinate basis to the

Bonds. See “SECURITY FOR THE BONDS—Payment of Debt Service on the Bonds and Swap Payments.”

The scheduled payment of principal of and interest on each Sub-series of the Bonds when due will be insured by a financial guaranty insurance policy (the “Policy”) to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation (the “Bond Insurer”). For additional information, see “BOND INSURANCE.”

Prior Alternate Bonds

General. The Board has previously issued Alternate Bonds payable from sources that, in some instances, include the Pledged Revenues as discussed herein. In the event such sources are insufficient or not available for the payment of such Bonds, the Bonds are payable from *ad valorem* taxes levied by the Board. For additional information, see “BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.”

Secured by Personal Property Replacement Tax Revenues. The Bonds are being issued on a parity basis, as to the claim on Personal Property Replacement Tax Revenues, with the Board’s outstanding \$499,995,204.25 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A (the “Series 1997A Bonds”), its outstanding \$14,000,000 Qualified Zone Academy General Obligation (Alternate) Bonds, Series 1998 (Bronzeville Academy Project) (the “Series 1998 Bonds”), its outstanding \$328,714,634 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues) Series 1998B-1 (the “Series 1998B-1 Bonds”), its outstanding \$532,553,135.50 Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1999A (the “Series 1999A Bonds”), its outstanding \$205,410,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2004A (the “Series 2004A Bonds”), its outstanding \$52,595,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2005B (the “Series 2005B Bonds”), the Series 2007B Bonds and the Series 2007C Bonds. The lien of the Bonds, Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds, the Series 1999A Bonds, the Series 2004A Bonds, the Series 2005B Bonds, the Series 2007B Bonds and the Series 2007C Bonds on the Personal Property Replacement Tax Revenues is junior in priority to that of the outstanding Series 1996 Bonds and Series 1997 Bonds. See “SECURITY FOR THE BONDS – General” and “– Personal Property Replacement Taxes.”

Secured by Intergovernmental Agreement Revenues. The Bonds are being issued on a parity basis, as to the claim on the Intergovernmental Agreement Revenues, with the Board’s outstanding Series 1997A Bonds, Series 1998 Bonds, Series 1998B-1 Bonds, Series 1999A Bonds, Series 2007B Bonds and Series 2007C Bonds. See “SECURITY FOR THE BONDS – General” and “– Intergovernmental Agreement Revenues.”

Additional Bonds Payable from Pledged Revenues

The Board may issue Additional Bonds from time to time from all or any portion of the Pledged Revenues or any other source of payment which may be pledged under the Debt Reform Act; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. 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 reserves the right to issue bonds or other evidences of indebtedness payable from the Pledged PPRT Revenues and/or from the Intergovernmental Agreement Revenues which are subordinate to the Bonds. Such subordinate obligations will be paid from the Pledged Revenues available to the Board in each year in excess of those required to be deposited in the Funds and Accounts established under the Indenture.

PLAN OF REFUNDING

The Bonds, together with the Board Deposit, will refund, defease and redeem the Refunded Bonds at the applicable redemption price of \$268,040,700 (plus accrued interest), being 102% of the principal amount thereof and pay all costs associated with the plan of refunding. The table attached to this Official Statement as APPENDIX G – “General Obligation Bonds to be Refunded by the Bonds” sets forth the original CUSIP, maturity date, interest rate, principal amount, redemption date and price for each of the Refunded Bonds.

PLAN OF FINANCE

General

Proceeds of the Bonds, together with the Board Deposit, will be used to refund the Refunded Bonds. The table attached to this Official Statement as APPENDIX G – “General Obligation Bonds to be Refunded by the Bonds” sets forth the original CUSIP, maturity date, interest rate, principal amount, redemption date and price for each of the Refunded Bonds.

The refunding of the Refunded Bonds with the proceeds of the Bonds, together with the refunding of additional Series 1997A Bonds with the proceeds of the Series 2007B Bonds and the refunding of the Series 1997 Bonds with the proceeds of the Series 2007C Bonds will allow the Board to achieve debt service savings in fiscal year 2008 and maintain the current level of debt service thereafter. To provide for the payment and retirement of the Refunded Bonds, a portion of the proceeds of the Bonds, together with the Board Deposit, will be used to purchase direct obligations of the United States of America, (the “Government Obligations”). The principal of and interest on the Government Obligations will be sufficient (i) to redeem the Refunded Bonds at a redemption price of 102% on December 1, 2007; and (ii) to pay interest on the Refunded Bonds to their redemption date; all as set forth in APPENDIX G – “General Obligation Bonds to be Refunded by the Bonds.”

The Government Obligations will be held in a separate escrow account (the “Refunding Escrow Account”), for the Refunded Bonds under an escrow agreement dated as of September 1, 2007 (the “Refunding Escrow Agreement”), by and between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as escrow agent. Funds held in the Refunding Escrow Account will not serve as security or be available for payment of principal of or interest on the Bonds. The Refunded Bonds will be legally defeased in accordance with the applicable provisions of the indenture under which the Refunded Bonds were originally issued and will no longer have any lien or claim on revenues pledged for their payment.

The mathematical computation of the adequacy of the Refunding Escrow Account to provide for payments of the Refunded Bonds as described above will be verified at the time of the delivery of the Bonds by Causey Demgen & Moore Inc., independent certified public accountants. See “CERTAIN VERIFICATIONS.”

The Series 2007B and Series 2007C Bonds

The Board will also issue its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007B in the principal amount of \$197,765,000 (the “Series 2007B Bonds”) and its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007C in the principal amount of \$6,870,000 (the “Series 2007C Bonds”) contemporaneously with the Bonds. The Series 2007B Bonds and the Series 2007C Bonds will be issued as fixed rate securities. The Series 2007B Bonds will refund certain of the Board’s outstanding Series 1997A Bonds and the Series 2007C Bonds will refund certain of the Board’s outstanding Series 1997 Bonds. The Series 2007B Bonds and Series 2007C Bonds are described in a separate official statement of the Board available upon request from the office of the Board’s Treasurer. The issuance of the Bonds is not contingent upon the issuance of the Series 2007B or

the Series 2007C Bonds. Similarly, the issuance of the Series 2007B or the Series 2007C Bonds is not contingent upon the issuance of the Bonds.

SOURCES AND USES OF FUNDS

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

<u>Sources:</u>	
Proceeds of the Bonds (Par Amount)	\$262,785,000.00
Board Deposit ⁽¹⁾	<u>15,176,908.28</u>
Total Sources of Funds	<u>\$277,961,908.28</u>
<u>Uses:</u>	
Deposit into Refunding Escrow Account.....	\$272,428,076.35
Deposit to Interest Deposit Sub-Account ⁽²⁾	3,369,644.76
Costs of Issuance ⁽³⁾	<u>2,164,187.17</u>
Total Uses of Funds	<u>\$277,961,908.28</u>

- (1) Amounts available for the payment of debt service on the Refunded Bonds under their respective indentures and related agreements will be transferred to the Board and used for purposes connected with the refunding of the Refunded Bonds or the issuance of the Bonds.
- (2) Represents capitalized interest which is sufficient to pay interest on the Bonds to and including December 1, 2007.
- (3) Includes bond insurance premium and other Costs of Issuance.

THE BONDS

General

The Bonds will consist of three Sub-series, will be dated their date of issuance and delivery and will mature as shown on the cover. The Bonds will be in an Auction Rate Mode from the date of issuance and will bear interest for the applicable Initial Interest Periods (from and including the date of original delivery to and including the respective Initial Auction Dates) at the respective Initial ARS Rates, and thereafter at the applicable ARS Rate determined pursuant to the Auction Procedures appropriate for the Auction Period, unless the length of the Auction Period is changed or the Interest Mode is changed. There is no mandatory tender if a Sub-series of the Bonds were to change from one Auction Period to another Auction Period. The Auction Procedures applicable during the Auction Rate Mode are more fully described in APPENDIX F—“AUCTION PROCEDURES.”

Each Sub-series of Bonds may be converted to a Weekly Mode, a Flexible Mode, a Term Rate Mode or a Fixed Mode. If a Sub-series of the Bonds were converted to a Weekly Mode, a Flexible Mode, a Term Rate Mode or a Fixed Mode, the Bonds of such Sub-series would be subject to a mandatory tender for purchase at a price equal to 100% of the principal amount thereof plus accrued interest. See “Conversion of ARS Bonds to Fixed Rates, Weekly Rates, Term Rates or Flexible Rates.” The date on which a Bond is converted to bear interest in a new Interest Mode, including any Term Rate Conversion Date or the Fixed Rate Conversion Date, is hereinafter referred to as an “Adjustment Date.” In connection with the mandatory tender that would occur on an Adjustment Date upon a conversion of the Bonds to a Weekly Mode, a Flexible Mode, a Term Rate Mode or a Fixed Mode, it is expected that the Board will supplement this Official Statement or deliver a new official statement or other disclosure documents describing in detail the provisions of the Indenture that would apply during any such Interest Mode.

The Bonds may bear interest in accordance with any of the following interest rate periods:

<u>Interest Rate Period</u>	<u>Length of Period</u>
Auction Period	
Daily	Beginning on each Business Day and extending to but not including the next succeeding Business Day
Seven-day.....	Seven days
28-day	28 days
35-day	35 days
Three-month.....	Three months
Six-month	Six months
Flexible	Generally, any period 182 days or less which is divisible by seven or greater than 182 days but not later than the final scheduled maturity date
Weekly Rate.....	Seven days
Flexible Rate	Not shorter than 2 days nor longer than 366 days
Term Rate.....	Not shorter than 12 months nor longer than the maturity date
Fixed Rate	From Fixed Rate Conversion Date to maturity

As used in this Official Statement, Bonds that bear interest at ARS Rates are sometimes referred to as “ARS Bonds.”

Description of the ARS Bonds

The following description applies to the ARS Bonds. A complete description of the Auction Procedures, including definitions related to the ARS Bonds, is set forth in APPENDIX F—“AUCTION PROCEDURES.”

Auction Period

The Indenture provides that the ARS Bonds may have an Auction Period consisting of a Daily, Seven-day, a 28-day, a 35-day, a Three-month, a Six-month or a Flexible Auction Period of (a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of ARS Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of ARS Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of ARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of the ARS Bonds.

The ARS Bonds will be issued as fully registered bonds without coupons and in denominations of \$5,000 or any integral multiple thereof. Fully registered bonds are interchangeable for other fully registered bonds of the same Sub-series in Authorized Denominations upon terms and conditions provided in the Indenture.

Auction Agent

The Indenture provides that when Bonds are in the Auction Rate Mode, the Trustee shall, at the direction of the Board, appoint an Auction Agent. The Trustee and the Auction Agent will enter into an Auction Agreement that will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures. The Trustee will enter into the Auction Agreement initially with Wilmington Trust Company, as agent for the Trustee, which agent shall perform the duties of Auction Agent with respect to the Bonds. See APPENDIX-F—"AUCTION PROCEDURES."

Auction Date

An Auction to determine the interest rate with respect to ARS Bonds for the next succeeding Auction Period will be held on each Auction Date. The first Auction Date with respect to the Series 2007A-1 Bonds will take place on September 18, 2007, for the Series 2007A-2 Bonds, September 13, 2007, and for the Series 2007A-3 Bonds, September 12, 2007, all as shown on the inside cover of this Official Statement.

Order Procedures for Existing Owners and Potential Owners

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in APPENDIX F, as are the particulars with regard to the determination of the Auction Rate and the allocation of Bonds bearing interest at ARS Rates (collectively, the "Auction Procedures").

Conversion of ARS Bonds to Fixed Rates, Weekly Rates, Term Rates or Flexible Rates

The Bonds within each Sub-series shall operate in the same Interest Mode at the same time; provided, however, that the Board may direct that all or, with Bond Insurer approval, any portion of the ARS Bonds of a Sub-series be converted on an Adjustment Date to bear interest at a Fixed Rate, a Weekly Rate, Term Rate or a Flexible Rate, provided that after any partial conversion there are not less than \$10,000,000 of ARS Bonds of such Sub-series outstanding. The Board may designate a different Interest Mode with respect to any ARS Bond on the last Interest Payment Date for any Auction Period. Not less than fifteen days prior to the Adjustment Date on which ARS Bonds will be converted to the Weekly Mode, the Flexible Mode, Term Rate Mode or the Fixed Mode, the Trustee will mail a written notice of the conversion to the Owners of all ARS Bonds to be converted, specifying the Adjustment Date, the last day of the Adjustment Period then ending and that such Bond is required to be purchased on the Adjustment Date. On the Adjustment Date applicable to the ARS Bonds to be converted, such ARS Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the ARS Bonds so tendered is payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable ARS Bonds on a mandatory tender date, the ARS Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Interest Rate. See "The Bonds – Failed Conversions." It is currently anticipated that, should any of the Bonds be converted to bear interest at a Weekly Rate, a Flexible Rate, Term Rate or a Fixed Rate, it is expected that the Board will

supplement this Official Statement or a new official statement or other disclosure documents describing the Bonds will be furnished during such Rate Period.

Conversion from One Auction Period to Another

On the conversion date for a Sub-series from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the next Auction Period will be a seven-day Auction Period and the Auction Rate for such period will be the Maximum Interest Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the ARS Bonds will not be subject to mandatory tender on such conversion date. See APPENDIX-F—“AUCTION PROCEDURES.”

Failed Conversions

If, on an Adjustment Date from the Auction Rate Mode, any condition precedent to such conversion required by the Indenture shall not be satisfied, including that the Bonds have not made Sufficient Clearing Bids, the Trustee shall give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the Bondholders and the Bond Insurer that such conversion has not occurred, that the Bonds shall not be purchased on the failed Adjustment Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to the Bonds which otherwise would have been converted, excluding however the Auction Date falling on the Business Day next preceding the failed Adjustment Date, and that the interest rate shall continue to be the ARS Rate; provided, however, that the interest rate borne by the Bonds during the Auction Period commencing on such failed Adjustment Date shall be the Maximum Interest Rate, and the Auction Period shall be the seven-day Auction Period.

The information in this Official Statement concerning the Auction Procedures and the Auction Agent has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy hereof.

Redemptions

Optional Redemption. Bonds bearing interest at ARS Rate shall be subject to optional redemption prior to their Maturity Date at the option of the Board, in whole or in part (and, if in part, in an Authorized Denomination) on the Business Day immediately succeeding any Auction Date, at a redemption price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the redemption date.

Bonds in a Weekly Mode shall be subject to redemption prior to their Maturity Date at the option of the Board, in whole or in part (and, if in part, in an Authorized Denomination) on any Business Day during such Weekly Mode, at a redemption price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the redemption date. Bonds in the Term Rate Mode or Fixed Mode shall be subject to redemption prior to their Maturity Date at the option of the Board, in whole or in part (and, if in part, in an Authorized Denomination) on any Business Day after the No-Call Period described below, at the following redemption prices (expressed as percentages of the principal amount of the Bond called for redemption) plus accrued interest, if any, to the redemption date:

<u>Term of Maturity</u>	<u>No-Call Period</u>	<u>Redemption Price</u>
greater than 12 years	10 years from the Fixed Rate Conversion Date	102% declining 1% per 12 months to 100%
less than or equal to 12 years and greater than 4 years	until 2 years prior to the Maturity Date	100%
less than or equal to 4 years	term to the Maturity Date	not subject to optional redemption

The Board may deliver to the Trustee an alternative schedule of redemption to the schedule shown above, if the Board delivers to the Trustee an Opinion of Bond Counsel to the effect that the alternative schedule of redemption will not adversely affect the validity and enforceability of the Bonds in accordance with their terms, and will not have an adverse effect on any exclusion from gross income of the interest thereon for Federal income tax purposes.

Bonds bearing interest at a Flexible Rate shall be subject to optional redemption prior to their Maturity Date at the option of the Board, in whole or in part (and, if in part, in an Authorized Denomination) on any Rate Change Date therefor, at a redemption price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds of each Sub-series are subject to mandatory sinking fund redemption prior to their maturity at a redemption price equal to the principal amount thereof, plus accrued interest, if any, on December 1 in the respective years and in the respective amounts set forth below:

<u>Year</u>	<u>Principal Amount of Series 2007A-1 Bonds</u>	<u>Year</u>	<u>Principal Amount of Series 2007A-2 Bonds</u>
2025	\$19,290,000	2025	\$19,100,000
2026	20,310,000	2026	20,100,000
2027	21,380,000	2027	21,150,000
2028*	20,805,000	2028*	20,650,000

<u>Year</u>	<u>Principal Amount of Series 2007A-3 Bonds</u>
2028	\$ 3,305,000
2029	47,110,000
2030*	49,585,000

* *final maturity*

Purchase in Lieu of Redemption. In lieu of redeeming Bonds pursuant to the Indenture, the Trustee may, at the request of the Board, use such funds available under the Indenture for redemption of Bonds to purchase Bonds in the open market at a price not exceeding the redemption price then applicable hereunder. Any Bond so purchased in lieu of redemption shall be delivered to the Trustee for cancellation and shall be canceled.

At its option, to be exercised on or before the 60th day next preceding any mandatory sinking fund redemption date for the Bonds (or such shorter period as may be acceptable to the Trustee), the Board may (i) deliver to the Trustee for cancellation, Bonds or portions thereof in Authorized Denominations subject to mandatory sinking fund redemption or (ii) receive a credit in respect of its mandatory sinking fund

redemption obligation for Bonds or portions thereof in Authorized Denominations which prior to said date have been redeemed (otherwise than through the operation of such mandatory sinking fund redemption) and canceled by the Trustee and not theretofore applied as a credit against any mandatory sinking fund redemption obligation. Each such Bond or portion thereof subject to mandatory sinking fund redemption so delivered or previously redeemed shall be credited against future mandatory sinking fund redemption obligations on Bonds in such order as the Board shall designate, or if no such designation is made, in chronological order, the principal amount of such Bonds to be redeemed by operation of such mandatory redemption to be accordingly reduced.

Redemption Procedures. Any redemption of less than all of the Bonds of a Sub-series outstanding will be made from the Bonds as the Board shall designate. No optional redemption of less than all of the Bonds of a Sub-series outstanding will be made unless the aggregate principal amount of Bonds to be redeemed is equal to \$5,000 or integral multiples thereof. Any redemption of less than all of the Bonds outstanding will be made in such a manner that all Bonds outstanding after such redemption are in Authorized Denominations.

If less than all of the Bonds are called for redemption under provisions of the Indenture permitting or requiring partial redemption, the particular Bonds (or portions thereof), to be redeemed (including as among the Sub-series) shall be selected by the Board, in the principal amount and particular Sub-series designated by the Board, which designation is required to include the Interest Mode and particular Maturity Date of Bonds to be redeemed, or as otherwise required by the Indenture; provided however that subject to the requirements of the Indenture that redemption be made first from Bank Bonds, and that (i) in the case of the redemption of less than all of the Bonds in the same Interest Mode which bear interest at the same rate for the same Rate Periods, such redemption will be by lot in such manner as the Trustee may determine among such Bonds and (ii) subject to other applicable provisions of the Indenture, the portion of any Bond to be redeemed will be in a principal amount equal to an Authorized Denomination. In selecting Bonds for redemption, the Trustee will treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by the minimum Authorized Denomination. If it is determined that one or more, but not all, of the integral multiples of the Authorized Denomination of principal amount represented by any Bond is to be called for redemption, then, upon notice of intention to redeem such integral multiple of an Authorized Denomination, the owner of such Bond is required to surrender such Bond to the Trustee for payment to such owner of the redemption price of the integral multiple of the Authorized Denomination of principal amount called for redemption; the Trustee will deliver to such owner a new Bond or Bonds in the aggregate principal amount of the unredeemed balance of the principal amount of such Bond. New Bonds representing the unredeemed balance of the principal amount of such Bond will be issued to the registered owner thereof without charge therefor.

Should the Trustee have knowledge of an Event of Default under the Indenture, there shall be no partial redemption of the Bonds other than the mandatory sinking fund redemptions described above.

Notice of Redemption. For a description of the giving of notices while the Bonds are in the book-entry only system, see “—Book-Entry Only System,” below. Whenever Bonds are to be redeemed, the Trustee will give notice of the redemption of the Bonds, which notice shall specify, among other things, the redemption date, the redemption price, the place and manner of payment and that from the redemption date interest will cease to accrue on the Bonds which are the subject of such notice.

(A) Except as hereinafter provided, a copy of the notice of the call for any redemption identifying the Bonds to be redeemed shall be given by first class mail, postage prepaid, with respect to Bonds bearing interest at a Short Rate or an ARS Rate, not less than 30 days prior to the date fixed for redemption and shall be given by first class mail, postage prepaid, or by facsimile transmission, and with respect to Bonds bearing interest at a Term Rate or a Fixed Rate, not less than 30 or more than 60 days prior to the date fixed for redemption, to the Bank, the Bond Insurer, the Remarketing Agent and the

Owners of the Bonds to be redeemed at their addresses as shown on the Bond Register. Such notice shall specify the redemption date, the redemption price, the place and manner of payment, and that from the redemption date interest will cease to accrue on the Bonds which are the subject of such notice, and shall include such other information as the Trustee shall deem appropriate or necessary at the time such notice is given to comply with any applicable law, regulation or industry standard. Such notice shall further state whether the redemption is conditioned upon sufficient moneys being available on the redemption date, or any other conditions. Such notice may state whether the redemption is conditioned upon sufficient funds being available on the redemption date or any other condition, and that failure to deposit such funds shall not constitute an Event of Default under this Indenture; any funds so deposited with the Trustee and held in the Bond Payment Account shall be invested solely in Government Obligations maturing no later than the earlier of (i) 30 days after the date of placement with the Trustee, or (ii) the redemption date.

(B) Notwithstanding the foregoing, if Bank Bonds are to be redeemed, the Trustee shall give Immediate Notice of a redemption of Bank Bonds to the Bank at least one Business Day prior to the date fixed for redemption.

(C) In addition to the requirements of subsections (A) and (B), notice of the redemption of Bonds or any portion thereof identifying the Bonds or portions thereof to be redeemed shall specify (i) the series name and designation and certificate numbers of Bonds being redeemed, (ii) the CUSIP numbers of the Bonds being redeemed, (iii) the principal amount of Bonds being redeemed and the redeemed amount for each certificate (for partial calls), (iv) the redemption date, (v) the redemption price, (vi) the Date of Issuance, (vii) the interest rate and Maturity Date of the Bonds being redeemed, (viii) the date of mailing of notices to Owners and information services (if required), and (ix) the name of the employee of the Trustee which may be contacted with regard to such notice.

Additional redemption notices will be provided to Bondholders who fail to present their Bonds in a timely manner as provided in the Indenture. Failure to give notice in the manner described above or a defect in the notice as to any Bond will not affect the validity of any proceedings for redemption as to any Bond for which notice is properly given. Interest will not accrue after the redemption date on any Bond called for redemption if notice has been given and if sufficient moneys have been deposited with the Trustee to pay principal of, premium, if any, and interest on such Bonds to the redemption date.

Bond Registration and Transfers

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

Subject to the limitations described below, the Bonds are transferable upon surrender thereof at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to, the Trustee and duly executed by the Bondholder or such Bondholder’s attorney duly authorized in writing. Subject to the limitations described below, any Bond

may be exchanged at the principal corporate trust office of the Trustee upon surrender thereof, together with an assignment duly executed by the registered owner thereof or such registered owner's attorney in such form and with guarantee of signature as shall be satisfactory to the Trustee for an equal aggregate principal amount of Bonds of like date and tenor of any Authorized Denomination as the Bonds surrendered for exchange bearing numbers not contemporaneously outstanding. The Trustee and the Board may charge a fee sufficient to cover any tax, fee or other governmental charge in connection with any exchange or transfer of any Bond (except in connection with any partial redemption thereof). Prior to a Term Rate Conversion Date or the Fixed Rate Conversion Date, the Trustee shall not be required to exchange or register the transfer of any Bonds after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture, except that the Board and the Trustee shall be required to issue or register the transfer of Tendered Bonds after such date of mailing of notice or redemption.

Book-Entry Only System

The following information concerning DTC has been furnished by DTC for use in this Official Statement. Neither the Board nor the Underwriters are responsible for its accuracy or completeness.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial

Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of the notices be provided directly to them.

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

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

Redemption proceeds, principal, interest and premium, if any, payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, nor its nominee, the Trustee, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal interest and premium, if any, payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) will be the responsibility of the Board or the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board and the Trustee. Under such circumstances, in the event

that a successor securities depository is not obtained, certificates for the Bonds are required to be printed and delivered.

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

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

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

Effect on Bonds of Discontinuance of Book-Entry System

The following three paragraphs apply to the Bonds when not in the Book-Entry System:

Principal of Bonds bearing interest at a Weekly Rate, a Term Rate, a Flexible Rate or an Auction Rate will be payable upon the presentation and surrender thereof at the principal corporate trust office of the Trustee. The purchase price of Bonds upon optional or mandatory tender will be payable upon the presentation and surrender thereof at the principal corporate trust office of the Trustee's Agent or at such other office as may be designated by the Trustee.

Payment of interest on Bonds bearing interest at a Weekly Rate or a Term Rate is payable by a check mailed on the applicable Interest Payment Date to the registered owner thereof as of the close of business of the Trustee on the Record Date at the address of such owner as it appears on the Bond Register or at such other address as is furnished to the Trustee in writing by such owner not later than the Record Date. Payment of interest on Bonds bearing interest at a Flexible Rate or an Auction Rate shall be made to the registered owner thereof as of the close of business of the Trustee on the Record Date upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date. Payment of interest on any Bonds shall be made to any registered owner of \$1,000,000 or more aggregate principal amount of Bonds as of the close of business of the Trustee on the Record Date for a particular Interest Payment Date by wire transfer to such registered owner on such Interest Payment Date upon written notice from such registered owner containing the wire transfer address within the United States of America to which such registered owner wishes to have such wire directed, which written notice is received not later than the Business Day next preceding the Record Date, provided that such wire transfer only shall be made for Bonds bearing interest at the Flexible Rate, upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date.

Notwithstanding the foregoing, payment of Defaulted Interest on Bonds will be made to the persons who shall be the registered owners thereof on the Special Record Date fixed by the Trustee which shall be not more than 15 or less than 10 days prior to the date of the proposed payment of such Defaulted Interest, which shall not be less than 10 days after receipt by the Trustee of the notice of the proposed payment.

CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES

Role of Broker-Dealer

Banc of America Securities LLC, RBC Dain Rauscher Inc. d/b/a RBC Capital Markets, A.G. Edwards & Sons, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Loop Capital Markets, LLC and Morgan Stanley & Co. Incorporated (the “Broker-Dealers”) have been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for their services. The Broker-Dealers receive broker-dealer fees from such issuers or obligors at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through the Broker-Dealers in such auctions.

The Broker-Dealers are designated in the Broker-Dealer Agreements as the Broker-Dealers to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealers will receive Broker-Dealer Fees from the Board with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

Bidding by Broker-Dealers

The Broker-Dealers are permitted, but not obligated, to submit Orders in Auctions for the Bonds for their own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealers submit an Order for their own account, they would have an advantage over other Bidders because the Broker-Dealers would have knowledge of the other Orders placed through them in that Auction for the Bonds and thus, could determine the rate and size of their Order so as to increase the likelihood that (i) their Order will be accepted in the Auction for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealers are appointed and paid by the Board to serve as the Broker-Dealers in an Auction for the Bonds, the Broker-Dealers’ interests in serving as the Broker-Dealers in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. *See* “Role of Broker-Dealer.” The Broker-Dealers would not have knowledge of Orders submitted to the Auction Agent by any other firm that may in the future be appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealers are the only Broker-Dealers appointed by the Board to serve as the Broker-Dealers in the Auctions for the Bonds, and as long as that remains the case they will be the only Broker-Dealers that submit Orders to the Auction Agent in the Auctions for the Bonds. As a result of such circumstances, the Broker-Dealers may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealers routinely place bids in auctions generally for their own account to acquire securities for their inventory, to prevent an “Auction failure” (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealers believe do not reflect the market for such securities. The Broker-Dealers may place one or more Bids in an Auction for the Bonds for their own account to acquire the Bonds for their inventory, to prevent an Auction failure or to prevent Auctions for the Bonds from clearing at a rate that the Broker-Dealers believe do not reflect the market for the Bonds. The Broker-Dealers may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through them. When Bidding in an Auction for the Bonds for their own account, the Broker-Dealers also may Bid inside or outside the range of rates that it posts in their Price Talk. *See* “Price Talk.”

Bids by the Broker-Dealers are likely to affect (i) the Auction Rate – including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate

than they might have received had the Broker-Dealers not Bid and (ii) the allocation of the Bonds being auctioned – including displacing some Bidders who may have their Bids rejected or receive fewer of the Bonds than they would have received if the Broker-Dealers had not Bid. Because of these practices, the fact that an Auction for the Bonds clears successfully does not mean that an investment in the Bonds involves no significant liquidity or credit risk. The Broker-Dealers are not obligated to continue to place such Bids in any particular Auction for the Bonds to prevent an Auction failure or an Auction for the Bonds from clearing at a rate the Broker-Dealers believe do not reflect the market for the Bonds. Investors should not assume that the Broker-Dealers will place Bids or encourage others to do so or that Auction failures will not occur. Investors should also be aware that Bids by the Broker-Dealers may cause lower Auction Rates to occur.

The statements herein regarding Bidding by the Broker-Dealers apply only to a Broker-Dealer's Auction Desk and any other business units of the Broker-Dealers that are not separated from the Auction Desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Bonds, if all of the outstanding Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). Alternatively, if the Broker-Dealers elect to do so, it could inform all Existing Owners that an "All Hold" situation is likely, giving them sufficient time to act before the Submission Deadline or the internal deadline, if any, established by the Broker-Dealers. If the Broker-Dealers hold any of the Bonds for their own account on an Auction Date, it is the Broker-Dealers' practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that Auction for the Bonds from being an All Hold Auction. The Broker-Dealers may, but are not obligated to, submit Bids for their own account in that same Auction for the Bonds, as set forth above.

Price Talk

Before the start of an Auction for the Bonds, the Broker-Dealers, in their discretion, may make available to their customers who are Existing Owners and Potential Owners the Broker-Dealers' good faith judgment of the range of likely clearing rates for the Auction for the Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. The Broker-Dealers occasionally may update and change the Price Talk based on changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids

The Broker-Dealers will not accept "all-or-nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of the Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes

The Broker-Dealers provide no assurance as to the outcome of any Auction. The Broker-Dealers also do not provide any assurances that any Bid will be successful, in whole or in part, or that the Auction for the Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any of the Bonds purchased or retained in the Auction for the Bonds may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy the Bonds from or sell the Bonds to a customer after the Auction.

Deadlines

Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the “Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealers impose an earlier deadline for all customers – called the “Broker-Dealer Deadline” – by which Bidders must submit Bids to the Broker-Dealers. The Broker-Dealers Deadline is subject to change by the Broker-Dealers. Potential Owners should consult with the Broker-Dealers as to their Broker-Dealer Deadline. The Broker-Dealers may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. Broker-Dealers may submit Bids for their own account at any time until the Submission Deadline and may change Bids they have submitted for their own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealers or generated by the Broker-Dealers for their own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, the Broker-Dealers may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealers determine that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submissions, modifications or withdrawal.

Existing Owner’s Ability to Resell Auction Rate Securities May Be Limited

An Existing Owner may sell, transfer or dispose of a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Bonds all, and may not be able to sell any, of the Bonds subject to such Submitted Sell Orders. As discussed above, (*see* “Bidding by Broker-Dealer”), the Broker-Dealer may submit a Bid in an Auction for the Bonds to avoid an Auction failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction failure in the absence of the Broker-Dealer Bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction failures are possible, especially if the Board’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the Bonds, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Bonds on the terms or at the times desired by an Existing Owner. The Broker-Dealer, in its own discretion, may decide to buy or sell the Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Bonds. However, the Broker-Dealer is not obligated to make a market in the Bonds and may discontinue trading in the Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Bond through a dealer which is not the Broker-Dealer for the Bonds, such Existing Owner's ability to sell its Bonds may be affected by the continued ability of its dealer to transact trades for the Bonds through the Broker-Dealer.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Board, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlements" *below*) or press reports, financial reporting cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions

The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice to Board and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealers thereunder may resign upon 30 days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there was no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest rate on the Bonds will be determined as described in the Indenture.

Concerning the Auction Rate Securities

Prospective purchasers of the Bonds while they are Auction Rate Securities should note the following:

Securities and Exchange Commission Settlement

On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation against 15 firms, including the Broker-Dealers that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, the Initial Broker-Dealers each agreed to pay a civil money penalty in the same amount paid by other settling firms that participated in the auction securities market at a level similar to that of the Initial Broker-Dealers. In addition, the Initial Broker-Dealers, without admitting or denying the SEC's allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by the Initial Broker-Dealers to conduct the auction process in accordance with disclosed procedures.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including Wilmington Trust Company (collectively the "Settling Auction Agents"), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that may have affected the rates paid on the auction rate securities. As part of

the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC's allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be given as to the effect of the settlement on the market for the Bonds while they are Auction Rate Securities.

INTEREST RATE SWAP AGREEMENTS

On August 30, 2005, Bank of America, N.A. ("Bank of America") entered into a swaption agreement with the Board pursuant to which Bank of America has the right to cause the Board to enter into an interest rate swap transaction (the "Bank of America Swap") with an initial notional amount of \$100,000,000. On November 21, 2006, Royal Bank of Canada ("RBC") entered into a swaption agreement with the Board pursuant to which RBC has the right to cause the Board to enter into an interest rate swap transaction (the "RBC Swap") with an initial notional amount of \$162,785,000. Both Bank of America and RBC have chosen to exercise their option and have entered into an interest rate swap agreement (the "Series 2007A Swap Agreements") as described herein, (Bank of America as counter-party, together with RBC as counter-party, the "Initial Swap Providers"). The Series 2007A Swap Agreements will be effective on December 1, 2007. The Bank of America Swap will mature on December 1, 2030 and the RBC Swap will mature on December 1, 2028. Under the Series 2007A Swap Agreements, the Board received upfront payments in the aggregate amount of \$43,270,000 and agreed to pay a fixed rate of interest on a notional principal amount equal to \$100,000,000 for the Bank of America Swap and \$162,785,000 for the RBC Swap. The \$262,785,000 aggregate notional amount for the swaps represents the principal amount of the Bonds (the "Swapped Bonds"). The notional amounts under the Series 2007A Swap Agreements decline by the same amount of the associated principal amortization of the Swapped Bonds.

The Board has entered into the Series 2007A Swap Agreements as a means of (1) lowering its borrowing costs when compared to fixed-rate bonds at the time of issuance and (2) limiting interest rate risk inherent in variable rate debt.

The swaps may 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 Initial Swap Providers. If an Initial Swap Provider's credit rating from Standard & Poor's and/or Moody's Investors Service declines below specified rating levels and the market value of the swap reaches certain threshold amounts, the market value of the swap will be collateralized by the Initial Swap Provider with U.S. government securities. Collateral would be posted with a third-party custodian. The current credit ratings for Bank of America N.A. are "AA+," "Aaa" and "AA" from Standard & Poor's, Moody's and Fitch, respectively. The current credit ratings for RBC are "AA-," "Aaa" and "AA" from Standard & Poor's, Moody's and Fitch, respectively.

The Board will be exposed to "basis risk" should the rate paid on the Swapped Bonds exceed the rate payable to the Board pursuant to the Series 2007A Swap Agreements. Should any adverse basis differential occur while the Series 2007A Swap Agreements are in effect, the rate paid on the Swapped Bonds will be higher than the synthetic fixed rate, and therefore the expected interest cost savings may not be realized.

The Board may terminate the Series 2007A Swap Agreements at any time at market value. In addition, the Board or the Initial Swap Providers may terminate the Series 2007A Swap Agreements if the other party fails to perform under the terms of the contracts. The Series 2007A Swap Agreements may also be terminated by the Board if the Initial Swap Providers' credit ratings from Standard & Poor's, Fitch and/or Moody's decline below specified rating levels. The Series 2007A Swap Agreements may also be terminated by the Initial Swap Providers if the Board's credit rating from Standard & Poor's, Fitch and/or

Moody's decline below specified rating levels. If the Series 2007A Swap Agreements are terminated, the Swapped Bonds would no longer carry a synthetic 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 the Series 2007A Swap Agreements have a negative market value, the Board could be liable to the Initial Swap Providers for payment equal to the swap's market value.

SECURITY FOR THE BONDS

General

The Series 2007A-1 Bonds and the Series 2007A-2 Bonds will be issued pursuant to the School Code, the Debt Reform Act, the 2006 Authorization, the 2006 Bond Resolution, the 2007 Supplemental Resolution and the Indenture. The Series 2007A-3 Bonds are issued pursuant to the School Code, the Debt Reform Act, the 1998 Authorization, the 2005 Bond Resolution, the 2007 Supplemental Resolution and the Indenture. The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit, and will be payable, both as to principal and interest, from any moneys, revenues, receipts, income, assets or funds of the Board legally available for such purpose.

The Bonds will be payable from and secured by a pledge of "Pledged Revenues", namely (a) those amounts allocated and paid to the Board from the Personal Property Replacement Tax Replacement Fund of the State of Illinois pursuant to Section 12 of the State Revenue Sharing Act of the State of Illinois, as amended, or from such successor or replacement fund or act as may be enacted in the future (the "Personal Property Replacement Tax Revenues") remaining after (x) any required allocation thereof to provide for the payment of those claims, currently for pension or retirement obligations, that are required to be paid from the Personal Property Replacement Tax Revenues prior to any other application or use thereof pursuant to Section 12 of said State Revenue Sharing Act, or such successor or replacement act as may be enacted in the future (the "Statutory Claims") and (y) any required allocation thereof to provide for the payment of the Board's outstanding \$52,650,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 1996, and outstanding \$71,285,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 1997; (b) those amounts paid to the Board pursuant to an Intergovernmental Agreement (the "Intergovernmental Agreement") dated as of October 1, 1997, by and between the Board and the City of Chicago (the "Intergovernmental Agreement Revenues"), as shall provide for the payment of the Bonds, and the provision of not less than an additional .25 times debt service on the Bonds, (ii) the ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "Pledged Taxes"), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture with the exception of the Bond Purchase Fund, the Program Expense Fund and the Swap Payment Account, and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. As to the lien on the Pledged Revenues, the Bonds will be payable on a parity basis with any Additional Bonds. 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 and Swap Payments.

As described more fully below under "Payment of Debt Service on the Bonds and Swap Payments," the Swap Payments required to be made by the Board to Swap Providers are payable from the Pledged Revenues on a subordinate basis to the Bonds.

As described above under "INTRODUCTION – Prior Alternate Bonds – Secured by Personal Property Replacement Tax Revenues," the Bonds will be payable, as to the lien on Personal Property Replacement Tax Revenues, on a parity basis with the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds, the Series 1999A Bonds, the Series 2004A Bonds, the Series 2005B Bonds, the Series 2007B Bonds and the Series 2007C Bonds (collectively, the "Outstanding Parity Bonds"). The Series 1996 Bonds and the Series 1997 Bonds (collectively, the "Outstanding Senior Bonds") are also

payable from and secured by a pledge of Personal Property Replacement Tax Revenues and the lien of the Outstanding Senior Bonds on Personal Property Replacement Tax Revenues is senior in priority to that of the Outstanding Parity Bonds.

As described above under “INTRODUCTION – Prior Alternate Bonds – Secured by Intergovernmental Agreement Revenues,” the Bonds will be payable, as to the lien on Intergovernmental Agreement Revenues, on a parity basis with the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds, the Series 1999A Bonds, the Series 2007B Bonds and the Series 2007C Bonds.

In connection with the issuance of the Bonds, the Board will enter into a Fourth Restated Master Alternate Bonds Escrow Agreement (the “Escrow Agreement”) with Amalgamated Bank of Chicago, as escrow agent (the “Escrow Agent”). In order to provide for the payment of Personal Property Replacement Tax Revenues that have been pledged to the payment of the Bonds, the Outstanding Senior Bonds, the Outstanding Parity Bonds and the Statutory Claims, the Board has directed the Department of Revenue of the State of Illinois (the “Department of Revenue”) to deposit all proceeds of the Personal Property Replacement Tax Revenues annually allocated and paid to the Board with the Escrow Agent. Under the Escrow Agreement, the Escrow Agent will annually distribute such deposits: first, to the Board, in an amount necessary to pay any Statutory Claims for the subject year; second, to the respective trustees for the Outstanding Senior Bonds in amounts sufficient to provide for the payment of debt service for the subject year pursuant to the respective indentures for the Outstanding Senior Bonds; and third, to the Trustee and the respective trustees for the Bonds and Outstanding Parity Bonds in amounts sufficient to provide for the payment of debt service (or applicable Swap Payments) for the subject year pursuant to the Indenture and the respective indentures for the Outstanding Parity Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under the Bond Insurance Policy to be issued concurrently with the delivery of the Bonds by the Bond Insurer. For additional information, see “BOND INSURANCE.”

Intergovernmental Agreement Revenues

General. The Intergovernmental Agreement provides that the City of Chicago (the “City”) will assist the Board in the financing of its Capital Improvement Program (as described herein) by providing the Board with moneys to be used by the Board to pay debt service on obligations issued by the Board for such purpose, including the Bonds. The amounts to be provided by the City pursuant to the Intergovernmental Agreement will be derived from the proceeds of *ad valorem* taxes levied in specified years by the City on all taxable property within the City.

Levy of Taxes Providing Intergovernmental Agreement Revenues. Pursuant to the ordinance approving the execution and delivery by the City of the Intergovernmental Agreement, the City Council of the City has levied direct annual taxes for the purpose of providing funds to the Board to assist in servicing the debt incurred by the Board through the issuance of the Bonds and obligations to be issued in the future by the Board to finance its Capital Improvement program. The amount of these direct annual taxes to be collected in each year is shown in the column entitled “Intergovernmental Agreement Revenue” in the table entitled “DEBT SERVICE COVERAGE SCHEDULE.”

The annual amount of the taxes levied by the City to provide the Intergovernmental Agreement Revenues have been determined so as to cause the aggregate of (i) such taxes and (ii) the taxes currently levied for debt service by the Chicago School Finance Authority (the “Authority”) and certain taxes currently levied by the Board for the payment of its lease obligations with the Public Building Commission of Chicago to approximate the maximum amount of the taxes annually levied as described in clause (ii). Consequently, the levy of taxes to provide the Intergovernmental Agreement Revenues is therefore not expected to result in any increase in the aggregate of the taxes currently levied to pay debt service on

obligations issued by or for the benefit of the Board. For additional information, see “OTHER LOCAL GOVERNMENT UNITS – Chicago School Finance Authority” and “OTHER LOCAL GOVERNMENTAL UNITS – Other Public Bodies.”

The Intergovernmental Agreement provides that the taxes levied to provide the Intergovernmental Agreement Revenues may be abated by the City, upon receipt of written notification from the Board, in any year to the extent such Intergovernmental Agreement Revenues are not necessary to pay debt service on the Bonds and any Additional Bonds.

Collection and Application of Intergovernmental Agreement Revenues. Pursuant to the Intergovernmental Agreement, the City will file a written direction (the “Direction”) with the County Collectors of Cook and DuPage Counties (the “County Collectors”), specifying the amount of Intergovernmental Agreement Revenues which are to be collected annually and directing the County Collectors to deposit all collections of the Intergovernmental Agreement Revenues directly with the Escrow Agent. In the event that, for any reason, any Intergovernmental Agreement Revenues are paid by the County Collectors directly to the City and are not deposited with the Escrow Agent, such amounts shall be promptly deposited by the City with the Escrow Agent.

The boundaries of the City and the Board are coterminous and the City and the Board share a common real estate tax base. For additional information on the extension and collection of the taxes levied by the City to provide the Intergovernmental Agreement Revenues, see “THE REAL PROPERTY TAX SYSTEM.”

Covenants of the City. The City agrees in the Intergovernmental Agreement that it will take no action or fail to take any action which in any way would adversely affect the ability of the City to levy and collect the Intergovernmental Agreement Revenues. The City shall have no right to terminate, cancel or rescind the Intergovernmental Agreement, no right to withhold from the Board payments due or to become due under the Intergovernmental Agreement, no right to recover from the Board amounts previously paid under the Intergovernmental Agreement unless paid in error or contrary to the provisions of the Intergovernmental Agreement or law, no right of reduction or set-off against the amounts due or to become due under the Intergovernmental Agreement, and no lien on any amounts in any fund established by the Board or any reason or on account of the existence or occurrence of any event, condition or contingency, whether foreseen or unforeseen or foreseeable or unforeseeable by the City or the Board or any other person. According to the Intergovernmental Agreement, the levy of taxes to provide the Intergovernmental Agreement Revenues and the collection and application of the Intergovernmental Agreement Revenues, as described herein, does not require any further action by the City Council.

The obligations of the City to make payments of Intergovernmental Agreement Revenues to the Board are limited to and are payable solely and only from the amount of taxes actually collected by the County Collectors on behalf of the City and deposited with the Escrow Agent. The Intergovernmental Agreement provides that the City shall not in any manner be deemed to be an obligor on the Bonds or any credit enhancement thereof by virtue of its execution and delivery of the Intergovernmental Agreement. No owner, holder or credit enhancer of the Bonds shall be deemed to be a third party beneficiary of the Intergovernmental Agreement, nor shall any such owner, holder or credit enhancer of the Bonds have any right to enforce the provisions of the Intergovernmental Agreement against the City.

Personal Property Replacement Taxes

Purpose/History. Article 9, Section 5 of the Illinois Constitution of 1970 abolished all *ad valorem* taxes on personal property effective January 1, 1979. Article 9, Section 5 of the Illinois Constitution of 1970 also required that the Illinois General Assembly establish a tax (or taxes) on businesses to replace the revenue lost by units of local government as a result of the abolition of the personal property tax. Pursuant to state constitutional mandate, this lost revenue was to be replaced by

statewide taxes, other than *ad valorem* taxes on real estate, solely on those classes relieved of the burden of paying *ad valorem* personal property taxes. To implement this state constitution mandate, the General Assembly imposed the “Replacement Taxes,” described in more detail below and in APPENDIX C – “Information Concerning Personal Property Replacement Tax Revenues.” These taxes became effective on July 1, 1979.

Allocation and Payment. The Replacement Taxes are collected by the Department of Revenue and are deposited in the Personal Property Replacement Tax Fund and allocated among approximately 6,700 taxing districts. Taxing districts in Cook County receive 51.65 percent of the collections; taxing districts outside of Cook County receive 48.35 percent of the collections. The allocation of Replacement Taxes among taxing districts in Cook County, including the Board, is based on the ratio of each taxing district’s personal property tax collections for the 1976 tax year to the total personal property tax collections for all taxing districts in Cook County for the 1976 tax year. As a result of these allocations, the Board receives 14 percent of the total Replacement Taxes collected each year.

Payments of Replacement Taxes are made directly to, or as directed by, the fiscal officer of each taxing district in January, March, April, May, July, August, October and December of each year. The State Revenue Sharing Act currently provides for appropriation to taxing districts of the Replacement Taxes on a continuing basis, without the need for annual approval by the Illinois General Assembly. As described herein, the Board has irrevocably directed the Department of Revenue to deposit all of the Board’s allocation of the Replacement Taxes with the Escrow Agent.

For additional information on the collection, allocation and payment of the Replacement Taxes, see APPENDIX C – “Information Concerning Personal Property Replacement Tax Revenues.”

Prior Statutory Claims. Pursuant to Section 12 of the State Revenue Sharing Act, Personal Property Replacement Tax Revenues are required to be applied by the Board *first* toward payment of the proportionate amount of debt service which was previously levied and collected from extensions against personal property on bonds outstanding as of December 31, 1978 and *next* toward payment of the proportionate share of the pension and retirement obligations of the Board which were previously levied and collected from extensions against personal property. Such prior claims on Personal Property Replacement Tax Revenues are referred to herein as the “Statutory Claims.”

The Board has no bonds or other debt currently outstanding which was outstanding as of December 31, 1978. In addition, as a result of Public Act 89-698, effective January 14, 1997, the Board is not currently or in future years authorized or directed to levy a specific property tax in satisfaction of its pension and retirement obligations in the manner contemplated in Section 12 of the State Revenue Sharing Act. Consequently, under current law no portion of the Personal Property Replacement Tax Revenues is required to be applied either (a) to pay debt service on any obligations or (b) to fund the Board’s existing pension and retirement obligations, prior to payment of debt service on the Bonds or the Prior Alternate Bonds. See “THE BOARD OF EDUCATION OF THE CITY OF CHICAGO – Employee Pension Obligations” for additional information on the Board’s obligation to fund its employee pension and retirement obligations.

In future years, if the General Assembly restores a specific property tax levy for pension and retirement purposes, the effect of such restoration may be to reinstate the operation of Section 12 of the State Revenue Sharing Act with the possible result that a portion of the Personal Property Replacement Tax Revenues would be required to be applied first to pay a portion of the Board’s pension and retirement obligations. For additional information, see “- Replacement Tax Statistical Tables” under APPENDIX C – “Information Concerning Personal Property Replacement Tax Revenues.”

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Bonds if Pledged PPRT Revenues and Intergovernmental Agreement Revenues are insufficient. The Pledged Taxes are ad valorem taxes levied pursuant to the Bond Resolutions against all of the taxable property in the School District, without limitation as to rate or amount. Specifically, the 2005 Pledged Taxes levied pursuant to the 2005 Bond Resolution are pledged exclusively for the payment of the Series 2007A-3 Bonds, and the 2006 Pledged Taxes levied pursuant to the 2006 Bond Resolution are pledged exclusively for the payment of the Series 2007A-1 Bonds and the Series 2007A-2 Bonds. However, based on projected receipts of the Pledged PPRT Revenues and Intergovernmental Agreement Revenues, the Board anticipates that all Pledged Taxes will be abated on a year-by-year basis prior to such taxes being extended. To the extent that the Pledged PPRT Revenues and Intergovernmental Agreement Revenues are not available in sufficient amounts, the debt service on the Bonds is payable from the Pledged Taxes. In the event the Pledged Taxes are extended for collection, in any year, the Board will direct the County Collectors to segregate from each distribution of property taxes to be paid to the Board that percentage attributable to the levy of the Pledged Taxes for the payment of the debt service on the Bonds, and that amount will be paid directly to the Trustee for application in accordance with the provisions of the Indenture. The Board has covenanted in the Indenture to take all actions necessary to cause the levy and extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Bonds and Swap Payments. For additional information concerning the levy and collection of the Pledged Taxes, see “THE REAL PROPERTY TAX SYSTEM—Real Property Assessment, Tax Levy and Collection Procedures.”

Pledged Taxes Account

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. The 2005 Sub-Account is maintained for the payment of the Series 2007A-3 Bonds and related Swap Payments. The 2006 Sub-Account is maintained for the payment of the Series 2007A-1 Bonds, the Series 2007A-2 Bonds and related Swap Payments. All 2005 Pledged Taxes received by the Trustee shall be deposited promptly upon receipt into the 2005 Sub-Account and applied to the payment of the interest on and the principal of the Series 2007 A-3 Bonds Bonds and Swap Payments with respect to such Sub-series of Bonds. All 2006 Pledged Taxes received by the Trustee shall be deposited promptly upon receipt into the 2006 Sub-Account and applied to the payment of the interest on and principal of the Series 2007A-1 Bonds and the Series 2007A-2 Bonds and Swap Payments with respect to such Sub-series of Bonds.

Debt Service Funds and Accounts

The Indenture establishes the Debt Service Fund as a separate fund pledged to the payment of debt service on the Bonds. The Indenture also establishes four separate accounts in the Debt Service Fund, known as the “Pledged Revenues Account”, the “Pledged Taxes Account,” the “Bond Payment Account” and the “Swap Payment Account.” The Pledged Revenues Account consists of the Deposit Sub-Account and the Payment Sub-Account, which Payment Sub-Account further consists of the Interest Deposit Sub-Account Pledged PPRT Revenues Sub-Account and the Intergovernmental Agreement Revenues Sub-Account. The Pledged Taxes Account consists of the 2005 Sub-Account and the 2006 Sub-Account. The Bond Payment Account consists of the Interest Sub-Account and Principal Sub-Account.

The Trustee shall deposit to the credit of the Interest Deposit Sub-Account (i) any amounts paid by the Board to the Trustee from time to time with instructions for deposit into such Sub-Account, including such portion of the Initial Board Funds deposited by the Board upon the delivery of the Bonds, (ii) any payments made by the Swap Providers under the Swap Agreements to the extent set forth in a certificate of a Designated Official filed with the Trustee. All or a portion of such amounts so deposited to the credit of the Interest Deposit Sub-Account shall be transferred no later than the next succeeding Interest Payment

Date to the Interest Sub-Account and applied to pay up to the amount of interest then due on the Bonds on such Interest Payment Date as described below under “Payment of Debt Service on the Bonds and Swap Payments.”

Application of Pledged Revenues; Abatement of Pledged Taxes

On or before each Deposit Date the Board shall deposit to the credit of the Pledged Revenues Account such amounts derived from Pledged Revenues as shall be necessary to cause the amount on deposit in said Account to equal the then-applicable Pledged Revenues Account Requirement.

The Pledged Revenues Account Requirement is determined as follows:

- (i) on each Deposit Date, with respect to the Bonds bearing interest at a Short Rate or an ARS Rate, an amount equal to the sum of (A) one year’s interest on such Bonds based upon the aggregate principal amount of such Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an interest rate equal to the greater of (x) 4.50% or (y) the actual weighted average interest rate borne by such Bonds for the 12-month period ending on the preceding February 1; *provided* that such amount shall be increased or decreased, as appropriate, giving effect to the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds; *provided, however*, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a fixed rate of interest, such amount shall be increased or decreased, as appropriate, giving effect to the known fixed rate of interest to accrue with respect to such Swap Agreement for such period of time during the next succeeding Bond Year that such Swap Agreement shall be in effect, (B) if no Swap Agreement is in place, the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date for which the Interest Payment Date occurs in the next succeeding Bond Year from the first day of the Rate Period for such Bonds to the last day of the then-current Bond Year, and (C) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year;
- (ii) on each Deposit Date, with respect to Bonds bearing interest at a Term Rate or Fixed Rate, an amount equal to the sum of (A) one year’s interest on such Bonds based upon the aggregate principal amount of Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and the actual Term Rate or Fixed Rate or Term Rates or Fixed Rates then borne by such Bonds; *provided, however*, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a variable rate of interest, such amount shall be increased or decreased, as appropriate, by calculating interest with respect to such Bonds pursuant to subparagraph (i)(A) above, treating the Swap Agreement as the Bonds for purposes of subclause (y), above, and (B) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year; and
- (iii) on each Deposit Date, with respect to any Bank Bonds, if any, an amount equal to the sum of (A) one year’s interest on such Bank Bonds based upon the aggregate principal amount of such Bank Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an assumed interest rate equal to the greater of (i) 9.0% or (ii) the average Bank Rate for the 12-month period ending on the preceding February 1 (regardless of whether Bank Bonds are Outstanding during such period) and (B) the principal amount of

such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year.

Once such deposit has been made satisfying the then-applicable Pledged Revenues Account Requirement, the Board shall, pursuant to the Indenture, take such actions as are necessary to abate in full the Pledged Taxes levied to otherwise provide funds for the payment of the debt service on the Bonds.

In the event that on any Deposit Date there has been deposited to the credit of the Pledged Revenues Account an insufficient amount to satisfy the then-applicable Pledged Revenues Account Requirement, the Board shall, pursuant to the Indenture, take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the Pledged Revenues Account, to provide the funds necessary to satisfy such Pledged Revenues Account Requirement. The Board has covenanted in the Indenture to take all action necessary to cause the levy and extension of additional Pledged Taxes in excess of those previously levied to pay debt service of the Bonds.

Payment of Debt Service on the Bonds and Swap Payments

There shall be transferred first from moneys on deposit in the applicable Sub-Account Pledged Taxes Account, second from the Interest Deposit Sub-Account, third from the Intergovernmental Agreement Revenues Sub-Account and last from Pledged PPRT Revenues Sub-Account (i) to the Interest Sub-Account of the Bond Payment Account on or before each Interest Payment Date for any of the Bonds, the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; (ii) to the Principal Sub-Account on or before each June 1, an amount equal to the sum of (A) one-half of the principal amount of the outstanding Bonds, if any, which mature on the next December 1 and (B) one-half of the amount required for the payment of the Redemption Price of Outstanding Bonds, if any, required to be redeemed on the next December 1 by the application in sinking fund installments pursuant to the Indenture and (iii) to the Principal Sub-Account after June 1 and on or prior to December 1, an amount sufficient so that the aggregate amount held in the Principal Sub-Account will equal the sum of (A) the principal amount of the Outstanding Bonds, if any, which mature on that December 1 and (B) the amount required for the payment of the Redemption Price of Outstanding Bonds, if any, required to be redeemed on the next December 1 by the application of sinking fund installments pursuant to the Indenture.

After deducting the amount required to be transferred to the Principal Sub-Account and provided the Board is not in default with respect to the payment of interest on the Bonds, there shall be transferred into the Swap Payment Account on each June 1 and December 1, or such other dates specified in the relevant Swap Agreements which the Board shall identify in a written notice delivered to the Trustee (each, a "Swap Payment Date") first from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the Interest Deposit Sub-Account, third from the moneys on deposit in the PPRT Revenues Sub-Account and last from the moneys on deposit in the Intergovernmental Agreement Revenues Sub-Account, an amount equal to the sum of the Swap Payment then owing under such Swap Agreements on such Swap Payment Date. The Trustee shall pay each Swap Provider on each Swap Payment Date from amounts then on deposit in the Swap Payment Account pursuant to payment instructions specified in the relevant Swap Agreements and provided to the Trustee and the Board by such Swap Provider. On or prior to December 1, 2007 and each December 1 thereafter, the Board shall provide the Trustee with written notice of the amount of each Swap Payment owing to such Swap Provider on each Swap Payment Date for the succeeding Bond Year. The Board shall promptly notify the Trustee in writing if the amount of any Swap Payments shall change from the amounts identified in such notice. Notwithstanding anything in the Indenture to the contrary, all payments of Swap Payments to be paid from Pledged Taxes shall be subordinate to the payment of principal of and interest on the Bonds and all

payments of Swap Payments to be paid from Pledged Revenues shall be subordinate to the payment of principal of and interest on the Bonds and any Additional Bonds.

All amounts on deposit in the Payment Sub-Account on December 1 of each Year, following the transfers required to be made to the Bond Payment Account and the Swap Payment Account, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture.

All amounts on deposit in the Intergovernmental Agreement Revenues Sub-Account on December 1 of each Year shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture.

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Bonds of that particular series and may not be applied to the payment of the Bonds of any other Series except the Bond Purchase Fund, the Program Expense Fund and the Swap Payment Account. A subordinate lien is granted to the Swap Providers under the Indenture on amounts on deposit from time to time in the Swap Payment Account. See APPENDIX-B—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

Additional Obligations Payable From Pledged Revenues

The Board may issue Additional Bonds from time to time payable from all or any portion of the Pledged Revenues or Pledged Taxes or any other source of payment which may be pledged under the Debt Reform Act; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. 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 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 each year in excess of those required to be deposited in the Funds and Accounts established under the Indenture.

Bonds Are Obligations of the Board

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

Amendments

Subject to the terms and provisions contained in the Indenture and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding and the Bond Insurer shall each have the right, from time to time, to (i) consent to and approve the execution by the Board and the Trustee of such other indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, or (ii) waive or consent to the taking by the Board of any action prohibited, or the omission by the Board of the taking of any action required, by any of the provisions of the Indenture or of any indenture supplemental hereto; provided, however, that nothing shall permit or be construed as permitting, (a) an

extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, or a change in the required date of purchase or purchase price of any Bond tendered for purpose, without the consent of the Owner of such Bond, (b) a reduction in the amount of, or extension of the time of, any payment required by any sinking fund applicable to any Bonds without the consent of the Owners of all the Bonds which would be affected by the action to be taken, (c) except for the pledge of the Pledged Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to or on a parity with the lien of this Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, (d) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, or (e) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (f) the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non-consenting Owner to the extent otherwise afforded under the Internal Revenue Code and regulations promulgated thereto.

The Board may at any time authorize the execution and delivery of a supplemental Indenture making a modification or amendment permitted by the provisions of the Indenture, to take effect when and as provided in the Indenture. Upon the authorization of such supplemental Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the owners. A copy of such supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the owners, but failure to mail such copy and request shall not affect the validity of such supplemental Indenture when consented to as in this Section provided. Such supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the (A) owners of the required aggregate principal amount of Outstanding Bonds and (B) the Bond Insurer, and (ii) a Counsel's Opinion stating that the execution and delivery of such supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) a notice shall have been mailed as required by the Indenture. Any such consent shall be binding upon the owner of the Bonds giving such consent and upon any subsequent owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereto whether or not such subsequent owner has notice thereof; provided, however, that any consent may be revoked by any owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement hereafter in this Section referred to is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation.

Rights of Bond Insurer

So long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be recognized as the owner of each of the Bonds insured under the Bond Insurance Policy and will have the right to consent to any supplements or amendments to the Indenture as may be required under the Indenture. The Bond Insurer shall also have the right with respect to each Bond to, acting alone, direct all remedies granted upon the occurrence of an Event of Default, and shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner of a Bond in accordance with the Indenture.

Notwithstanding anything contained in the Indenture or the Bonds to the contrary, the existence of all rights given to the Bond Insurer or thereunder with respect to the giving of consents or approvals, the receipt of notices and, in the case of the Bond Insurer, the direction of proceedings or otherwise are expressly conditioned upon the timely and full performance of the Bond Insurer and the payment obligations of the Bond Insurer under the Bond Insurance Policy.

BOND INSURANCE

The following information has been supplied by the Bond Insurer for inclusion in this Official Statement. No representation is made by the Board or the Underwriters as to the accuracy or completeness of the information.

Upon the issuance of the Bonds, Ambac Assurance Corporation (the “Bond Insurer” or “Ambac”) will issue an insurance policy (the “Policy”) that will guarantee the payment of scheduled principal of and interest on the Bonds (collectively referred to herein as the “Insured Bonds”).

The following information has been supplied by the Bond Insurer for inclusion in this Official Statement. No representation is made by the Board or the Underwriters as to the accuracy or completeness of the information.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance’s obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Paying Agent has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

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

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bonds, appurtenant coupon, if any, or right to payment of the principal of or interest on such Bonds and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,391,000,000 (unaudited) and statutory capital of approximately \$6,730,000,000 (unaudited) as of June 30, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007; and
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007.
4. The Company's Current Report on Form 8-K dated and filed on July 25, 2007;
5. The Company's Current Report on Form 8-K dated and filed on August 3, 2007; and
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007.

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

The Bond Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer and its affiliates set forth under this heading. In addition, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

Pursuant to the provisions of Public Act 89-15, approved and effective May 30, 1995 (the "1995 Amendatory Act"), the then-existing 15-member Chicago Board of Education (the "Prior Board") was replaced with the Chicago School Reform Board of Trustees of the Board of Education of the City of

Chicago, Illinois (the “Reform Board of Trustees”). Under the 1995 Amendatory Act, the Reform Board of Trustees served as the governing board of the School District until June 30, 1999. On July 1, 1999, by operation of the 1995 Amendatory Act, the Reform Board of Trustees became the Board. The members of the Board 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:

Rufus Williams is President of the Board and also President and Chief Executive Officer of Olympus, LLC, a business management and contract negotiation firm. Prior to founding Olympus, LLC, Mr. Williams worked for 10 years in various positions including Chief Financial Officer and Controller at Harpo Entertainment Group, best known for producing “The Oprah Winfrey Show.” Mr. Williams 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 is past President of the Better Boys Foundation, a social service agency that provides assistance to children and their families, and past Treasurer of the Board of Trustees of Francis W. Parker School, where he is now an Honorary Trustee. Mr. Williams graduated Magna Cum Laude from Southern University of Baton Rouge, Louisiana with a degree in Accounting.

Clare Muñana is Vice President of the Board and a public sector, not-for-profit and management consultant operating her own firm. Ms. Muñana has performed numerous domestic and international engagements for public sector and private sector clients in the U.S., Europe, Africa, and Latin America. Current and recent projects include: strategic plan for a Chicago startup museum, international strategy for European Foundation and Museum, an economic development project for an underserved region in the State of Illinois, a strategic plan for a major museum, and a feasibility study for an economic development agency for a large U.S. city. Ms. Muñana holds a Bachelors degree from Boston College, Masters degree in International Economics from the School of Advanced International Studies at The Johns Hopkins University and a Masters in Business (MBA) from the Kellogg Graduate School of Management at Northwestern University. Ms. Muñana also holds a certificate in French Civilization and Language from the Sorbonne. Ms. Muñana serves as the Vice President of the Board of Education for the City of Chicago; The Chicago Public Education Fund; Vice Chairman, National Museum of Mexican Arts, the Chicago Council on Global Affairs, the Aspen Institute; the Field Museum; The Commercial Club of Chicago; The Paris/Chicago Sister Cities International Program; Chicago Shakespeare Theater; Nuestro Futuro Chicago Community Trust, Chicago Chamber Musicians, the Art Institute – Trustee on Education, Mayor Daley’s Council of Technology Advisors and other not-for-profit organizations.

Norman R. Bobins is Chairman of LaSalle Bank Corporation. Mr. Bobins served as a Trustee of the Public School Teachers’ Pension and Retirement Fund of Chicago and was a member of the Public Building Commission of Chicago. Mr. Bobins received a Bachelor of Arts degree from the University of Wisconsin and a Master of Business Administration from the University of Chicago. Mr. Bobins is active in several civic organizations, 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. Dr. Butt is Deputy Medical Director of the Access Community Health Network. As part of his medical practice, Dr. Butt provides a range of medical services to patients on the west side of the City, regardless of their ability to pay. Dr. Butt has also served as Chairman of the Mayor’s Asian-American Advisory Council. Dr. Butt is currently serving as a member of the Board of Directors for the Illinois Association of School Boards and

National School Board Association Counsel of Urban Boards of Education (NSBA-CUBE) Steering Committee Member.

Alberto A. Carrero, Jr. is Senior Vice President and Public Banking Manager of Banco Popular North America (“Banco Popular”), the country’s largest Hispanic-owned bank. Mr. Carrero 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. Mr. Carrero 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.

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

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

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

Member	Term Expires
Rufus Williams, President.....	June 30, 2007*
Clare Muñana, Vice President.....	June 30, 2010
Norman R. Bobins	June 30, 2010
Dr. Tariq Butt.....	June 30, 2007*
Alberto A. Carrero, Jr.	June 30, 2010
Peggy A. Davis	June 30, 2007*
Roxanne Ward	June 30, 2007*

* Members continue to hold office pursuant to Section 34-3(b) of the School Code, 105 ILCS 5/1 *et seq.*

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 Administrative Officer	M. Hill Hammock
Chief Operating Officer	M. Hill Hammock
Chief Financial Officer	Pedro Martinez
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.

M. Hill Hammock is the Chief Administrative Officer and Chief Operating Officer of the Board. Prior to joining the Board, Mr. Hammock served as Vice President, Chief Operating Officer and Board Member of the LaSalle Bank Corporation. Mr. Hammock is the Chair of the Chicago Shakespeare Theater and has served as Chairman of the Chicago Historical Society, the Metropolitan Planning Council, and Leadership Greater Chicago. Mr. Hammock received an M.B.A. in Finance from the University of Chicago's Graduate School of Business and bachelor's degree in applied mathematics from Georgia Tech University.

Pedro Martinez is the Chief Financial Officer of the Board. He is a Certified Public Accountant. He has been employed with the Board of Education since September 2003. Prior to joining the Board of Education, he was the Director of Finance at the Archdiocese of Chicago, where he worked with their social service arm, Catholic Charities. He was employed there for eight years. Prior to joining the Archdiocese, he was an audit manager for Deloitte & Touche. He is a graduate of the University of Illinois at Champaign-Urbana and is finishing his MBA at DePaul University. He is a Vincentian Honors Scholar at DePaul. In addition Mr. Martinez serves as the President of The Resurrection Project's (TRP) Board of Directors and Vice-President of the Board at OAI, Inc., an employment services provider.

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.

<u>School Year</u>	<u>Elementary School</u>	<u>High School</u>	<u>Combined</u>
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

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 an area wide network; and
3. Educational enhancements, including new campus parks and play lots.

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

Coupled with the broad-based priority system, the Capital Improvement Program is reevaluated annually to ensure that changing needs are incorporated into the program. For example, the Board

annually updates space utilization reports to gauge current student overcrowding. To assess long-term classroom demand, the Board utilizes University of Illinois demographic forecasts. The Board also employs an aggressive preventative maintenance and evaluation program to (1) ensure that capital improvements are sustained through preventative measures and (2) provide an on-going capital needs assessment system-wide.

The Board uses third-party firms to provide program management services for the Capital Improvement Program to ensure appropriate oversight and cost control. 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 in aggregate principal amount of Alternate Bonds (excluding refunding bonds). As of June 30, 2007, approximately \$3.8 billion of the proceeds of such 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 will issue one or more series of Alternate Bonds in addition to the Bonds 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 2007 results from the Illinois Standards Achievement Test show that 60.9% of students are meeting or exceeding state standards in reading, while 68.6% are meeting or exceeding state standards in math. Overall, reading scores are up 22.1 percentage points and math 33.8 percentage points since 2001. Additionally, in high schools, the dropout rate has declined, the graduation rate has continued to grow, average ACT scores have increased, and more students are taking advanced placement classes than ever before.

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

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

Chicago Teachers' Union and Other Employee Groups

For its 2006 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, 2007 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 expired on June 30, 2007. The expired agreement provided for base salary increases of 4% each fiscal year during its four-year term. The Board representatives are in active bargaining with CTU representatives for a successor agreement. Terms of the agreement, including salary increases and duration of the agreement, are unresolved at this time and not likely to be resolved before September 2007.

The remaining six labor unions' collective bargaining agreements also expired on June 30, 2007 and bargaining is on-going. Those agreements also provided for base salary increases of 4% each fiscal year during their 4-year terms. Board representatives are in active negotiations with the union's respective representatives. Terms of successor agreements, including salary increases and duration of the agreements, are unknown at this time and not likely to be resolved before September 2007.

Issues addressed in all collective bargaining agreements with the Board include various working conditions, grievance procedures and employee benefits. The Board is seeking to maintain methods of alternative dispute resolution to reduce the number of union grievances and overall labor litigation including, but not limited to: a voluntary grievance mediation program, a labor management committee and a class size monitoring committee designed to resolve class size complaints successfully divert numerous matters away from litigation each year.

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

Recent Financial Information Concerning the Board

For fiscal years 1996 through 2006, the Board adopted and achieved a balanced budget. For fiscal year 2007, the Board adopted a balanced budget and, as of June 28, 2006, the estimated revenues and expenditures for such fiscal year indicate that such balanced budget will be achieved. In August 2007, the Board will conduct a public hearing and consider a tentative budget for fiscal year 2008.

The most recent audited financial statements are for the fiscal year ended June 30, 2006 and are included as APPENDIX A.

General Operating Fund Balances. As of June 30, 2006, the Board had a fund balance of \$495.8 million, of which \$188.1 million has been reserved for encumbrances and other specific purposes. The remaining unreserved balance was \$307.7 million, \$218.4 million of which was designated to provide operating capital. The fiscal year 2007 budget re-appropriated \$105.0 million of ending fiscal year 2006 fund balance, \$30.0 million for specific purposes and \$75.0 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					Budget 2007⁽²⁾
	2002	2003	2004	2005	2006	
Revenues:						
Property Taxes.....	\$1,429,307	\$1,495,382	\$1,520,557	\$1,587,803	\$1,666,118	\$1,696,562
Replacement Taxes.....	57,193	48,852	61,897	94,546	131,639	91,494
State Aid.....	1,336,586	1,307,229	1,329,390	1,417,423	1,492,361	1,584,030
Federal Aid.....	539,573	602,677	703,821	746,403	757,731	834,910
Investment Income.....	16,505	20,803	18,779	14,003	36,874	21,283
Other.....	66,917	76,609	87,545	85,377	101,129	72,444
Total Revenues.....	<u>\$3,446,081</u>	<u>\$3,551,552</u>	<u>\$3,721,989</u>	<u>\$3,945,555</u>	<u>\$4,185,852</u>	<u>\$4,300,723</u>
Expenditures						
Instruction.....	\$2,152,958	\$2,214,781	\$2,355,114	\$2,429,014	\$2,538,909	\$2,617,212
Pupil Services.....	311,628	320,380	327,653	323,225	333,968	367,049
Support Services.....	750,111	764,002	770,629	821,583	893,041	1,005,711
Food Services.....	160,063	170,238	180,588	173,872	172,774	200,973
Community Services.....	47,523	47,253	49,933	42,325	46,179	42,791
Teachers' Pension.....	65,045	65,045	65,045	65,045	75,398	169,553
Other.....	6,558	13,742	9,548	7,332	24,824	2,434
Total Expenditures.....	<u>\$3,493,886</u>	<u>\$3,595,441</u>	<u>\$3,758,510</u>	<u>\$3,862,396</u>	<u>\$4,085,093</u>	<u>\$4,405,723</u>
Revenues in Excess of (less than)						
Expenditures.....	\$ (47,805)	\$ (43,889)	\$ (36,521)	\$ 83,159	\$100,759	\$ (105,000)
Other Financing Sources.....	1,527	7,711	15,071	328	4,145	
Change in Fund Balance Revenues and Other Financing Sources in Excess of (Less than) Expenditures.....	\$ (46,278)	\$ (36,178)	\$ (21,450)	-		
Fund Balance, Beginning of Period.....	411,412	365,134	328,956	307,506	390,993	495,897
Fund Balance, End of Period.....	<u>\$ 365,134</u>	<u>\$ 328,956</u>	<u>\$ 307,506</u>	<u>\$ 390,993</u>	<u>\$ 495,897</u>	<u>\$ 390,897</u>
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances.....	\$118,726	\$78,879	\$67,542	\$97,313	\$102,286	\$108,393
Specific Purposes.....	36,525	41,718	43,454	45,134	85,891	
Total Reserved Fund Balance.....	<u>\$155,251</u>	<u>\$120,597</u>	<u>\$110,996</u>	<u>\$142,447</u>	<u>\$188,177</u>	<u>\$108,393</u>
Unreserved:						
Designated to Provide Operating Capital.....	\$201,500	\$161,233	\$171,300	\$190,000	\$218,400	\$218,400
Undesignated.....	8,383	47,126	25,210	58,546	89,320	64,104
Total Unreserved.....	<u>\$209,883</u>	<u>\$208,359</u>	<u>\$196,510</u>	<u>\$248,546</u>	<u>\$307,720</u>	<u>\$282,504</u>
Total Fund Balance.....	\$365,134	\$328,956	\$307,506	\$390,993	\$495,897	\$390,397

⁽¹⁾ The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting for its Governmental Funds. See APPENDIX A - "Financial Statements of the Board of Education of the City of Chicago."

⁽²⁾ Amounts are derived from the Fiscal Year 2007 Budget as published by Budget Department.

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Bonds, the Board has approximately \$3.6 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt also consists of approximately \$435 million aggregate principal amount of leases with the Public Building Commission (the "PBC Leases"). The lease rentals due under the PBC Leases are supported by separate unlimited property tax levies of the Board. For additional information on the Public Building Commission, see "OTHER LOCAL GOVERNMENT UNITS – Other Public Bodies – The Public Building Commission of Chicago." To provide for payment of the lease rentals under the PBC Leases, the Board has established lease payment debt service fund accounts with a lease payment trustee. Under the School Code and resolutions of the Board establishing those trust accounts, the Board has levied a separate tax unlimited as to rate or amount on real property within the School District to pay the lease rentals under the PBC Leases. Tax receipts of the Board attributable to the Board's PBC Leases are required to be paid by the County Collector directly to the lease payment trustee and deposited in a fund account to be used for the payment of the applicable lease rentals under the PBC Leases when due. Investment income on deposits in the fund accounts established to make lease rentals under the PBC Leases is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

**Board's Overlapping Debt Schedule
as of August 1, 2007
(Dollars in Thousands)**

	Amount
Direct Debt	
Series 2007A Bonds.....	\$ 262,785
Series 2007B Bonds	197,765
Series 2007C Bonds.....	6,870
Total Prior Bonds ⁽⁸⁾	3,623,146
Leases Securing PBC Bonds (principal component)	435,535
Total Direct Debt	<u>\$4,526,101</u>

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt ⁽¹⁾			
City	\$ 6,259,414	100.00%	\$ 6,259,414
School Finance Authority	127,795	100.00%	127,795
Community College District	31,695	100.00%	31,695
Chicago Park District ⁽²⁾	861,865	100.00%	861,865
Water Reclamation District	1,509,320	45.42%	685,513
Cook County	3,022,505	44.47%	1,344,118
Forest Preserve District	127,185	44.47%	<u>56,560</u>
Total Overlapping Debt			<u>\$ 9,366,960</u>
Total Direct and Overlapping Debt			<u><u>\$ 13,893,061</u></u>

Selected Debt Statistics

Population (2005).....	2,896,016 ⁽⁴⁾
Equalized Assessed Valuation (2006) ⁽³⁾	\$ 59,310,826 ⁽⁵⁾
Estimated Fair Market Value (2004)	\$ 262,080,627 ⁽⁶⁾

	Per Capita⁽⁷⁾	% EAV	% FMV
Direct Debt	\$1,562.87	7.63%	1.727%
Total Direct and Overlapping Debt	\$4,797.30	23.42%	5.301%

- (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	\$31,695,000
Chicago Park District	\$21,715,000

- (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 in dollars in thousands.
- (8) Excludes the principal amounts of the Refunded Bonds refunded by the Bonds and Series 2007B and Series 2007C Bonds as follows:

Series 2007A Bonds	\$262,785,000
Series 2007B Bonds & Series 2007C Bonds	\$205,925,000

DEBT SERVICE COVERAGE SCHEDULE

Calendar Year	Pledged PPRT Revenues ¹	Intergovernmental Agreement Revenues ^{1,2,3}	Total Pledged Revenues	Debt Service on Outstanding Senior Bonds ⁴	Debt Service on Outstanding Parity Bonds	Debt Service on the Series 2007A Bonds ⁵	Debt Service on the Series 2007B Bonds	Debt Service on the Series 2007C Bonds	Total Debt Service from Pledged Revenues	Coverage
2007	\$176,409,098	\$18,100,000	\$194,509,098	\$14,077,313	\$34,751,736	\$ 3,295,762	\$ 2,362,193	\$ 70,617	\$ 54,557,622	3.565
2008	176,409,098	18,800,000	195,209,098	21,216,538	27,411,155	13,796,213	9,888,250	590,606	72,902,762	2.678
2009	176,409,098	91,000,000	267,409,098	28,262,300	92,566,155	13,796,213	9,888,250	588,806	145,101,724	1.843
2010	176,409,098	91,000,000	267,409,098	28,252,475	92,576,155	13,796,213	9,888,250	591,606	145,104,699	1.843
2011	176,409,098	91,000,000	267,409,098	28,230,050	92,596,155	13,796,213	9,888,250	588,806	145,099,473	1.843
2012	176,409,098	91,000,000	267,409,098	28,289,800	85,036,155	13,796,213	9,888,250	590,606	137,601,024	1.943
2013	176,409,098	91,000,000	267,409,098		120,286,155	13,796,213	9,888,250	591,806	144,562,424	1.850
2014	176,409,098	91,000,000	267,409,098		122,817,125	13,796,213	9,888,250	592,406	147,093,994	1.818
2015	176,409,098	91,000,000	267,409,098		123,424,338	13,796,213	9,888,250	592,406	147,701,206	1.810
2016	176,409,098	91,000,000	267,409,098		123,425,425	13,796,213	9,888,250	592,906	147,702,794	1.810
2017	176,409,098	91,000,000	267,409,098		108,188,388	13,796,213	25,153,250	567,406	147,705,256	1.810
2018	176,409,098	91,000,000	267,409,098		108,186,375	13,796,213	25,160,000	560,700	147,703,288	1.810
2019	176,409,098	112,500,000	288,909,098		129,685,213	13,796,213	25,158,250	563,581	169,203,256	1.707
2020	176,409,098	142,300,000	318,709,098		150,809,775	13,796,213	32,636,500	565,094	197,807,582	1.611
2021	176,409,098	142,300,000	318,709,098		151,411,725	13,796,213	32,633,750	565,756	198,407,444	1.606
2022	176,409,098	142,300,000	318,709,098		127,533,938	13,796,213	32,638,250	564,975	174,533,375	1.826
2023	176,409,098	142,300,000	318,709,098		122,342,000	13,796,213	37,826,500	567,700	174,532,413	1.826
2024	176,409,098	142,300,000	318,709,098		122,335,750	13,796,213	37,821,000	564,300	174,517,263	1.826
2025	176,409,098	142,300,000	318,709,098		122,387,025	52,186,213			174,573,238	1.826
2026	176,409,098	142,300,000	318,709,098		122,352,950	52,190,738			174,543,688	1.826
2027	176,409,098	142,300,000	318,709,098		92,025,000	52,189,213			144,214,213	2.210
2028	176,409,098	142,300,000	318,709,098		158,610,000	52,186,388			210,796,388	1.512
2029	176,409,098	142,300,000	318,709,098		158,610,000	52,186,488			210,796,488	1.512
2030	176,409,098	142,300,000	318,709,098		158,610,000	52,188,213			210,798,213	1.512
2031	176,409,098	142,300,000	318,709,098		210,800,000				210,800,000	1.512

¹ Reflects calendar year 2006 receipts of the Board.

² Tax levied by the City to provide the Intergovernmental Agreement Revenues will be extended for collection in the calendar year following the year in which they are levied. For additional information, see "SECURITY FOR THE BONDS – Intergovernmental Agreement Revenues – Levy of Taxes Providing Intergovernmental Agreement Revenues." Intergovernmental Agreement Revenues will be applied for the payment of debt service on the Bonds in the year of collection.

³ Intergovernmental Agreement Revenues are pledged to the payment of the Bonds, the Series 2007B Bonds, the Series 2007C Bonds and Outstanding Parity Bonds. The Outstanding Senior Bonds are not payable from or secured by any pledge of the Intergovernmental Agreement Revenues. See "SECURITY FOR THE BONDS – General."

⁴ ACPGH The lien on the Outstanding Senior Bonds is senior to the lien on the Outstanding Subordinate Bonds and the Bonds.

⁵ Interest on \$262,785,000 of auction rates Series 2007A Bonds is calculated at 5.25% based on a 360-day year consisting of 12 30-day months.

Board's Debt Service Schedule

Calendar Year	Prior Bonds ^{1,2,3}	PBC Leases ¹	The Series 2007A Bonds ⁴	The Series 2007B Bonds	The Series 2007C Bonds	Total Annual Debt Service
2007	\$187,775,879	\$52,037,000	\$ 3,295,762	\$ 2,362,193	\$ 70,617	\$245,541,451
2008	185,153,449	52,096,838	13,796,213	9,888,250	590,606	261,525,356
2009	260,228,549	52,103,825	13,796,213	9,888,250	588,806	336,605,643
2010	263,752,515	52,163,338	13,796,213	9,888,250	591,606	340,191,922
2011	277,073,294	52,232,025	13,796,213	9,888,250	588,806	353,578,588
2012	257,636,771	52,318,625	13,796,213	9,888,250	590,606	334,230,465
2013	278,450,230	52,359,513	13,796,213	9,888,250	591,806	355,086,012
2014	267,715,011	52,430,550	13,796,213	9,888,250	592,406	344,422,430
2015	278,494,632	52,467,613	13,796,213	9,888,250	592,406	355,239,114
2016	269,612,349	52,519,550	13,796,213	9,888,250	592,906	346,409,268
2017	251,286,386	52,600,125	13,796,213	25,153,250	567,406	343,403,380
2018	256,661,635	52,664,600	13,796,213	25,160,000	560,700	348,843,147
2019	281,481,974	30,635,500	13,796,213	25,158,250	563,581	351,635,518
2020	303,903,918	-	13,796,213	32,636,500	565,094	350,901,724
2021	311,505,361	-	13,796,213	32,633,750	565,756	358,501,080
2022	275,936,418	-	13,796,213	32,638,250	564,975	322,935,856
2023	292,996,389	-	13,796,213	37,826,500	567,700	345,186,802
2024	293,010,348	-	13,796,213	37,821,000	564,300	345,191,861
2025	293,248,952	-	52,186,213	-	-	345,434,804
2026	293,255,332	-	52,190,738	-	-	345,446,070
2027	263,065,933	-	52,189,213	-	-	315,255,146
2028	355,056,678	-	52,186,388	-	-	407,243,066
2029	294,299,340	-	52,186,488	-	-	346,485,828
2030	294,344,928	-	52,188,213	-	-	346,533,141
2031	346,567,074	-	-	-	-	346,567,074
2032	116,966,867	-	-	-	-	116,966,867
2033	85,093,821	-	-	-	-	85,093,821
2034	69,511,923	-	-	-	-	69,511,923
2035	54,448,005	-	-	-	-	54,448,005
2036	41,340,053	-	-	-	-	41,340,053
	<u>\$7,299,873,654</u>	<u>\$658,629,102</u>	<u>\$550,958,636</u>	<u>\$340,383,943</u>	<u>\$9,910,083</u>	<u>\$8,859,755,415</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.
- (4) Interest on \$262,785,000 of auction rates Series 2007A Bonds is calculated at 5.25% based on a 360-day year consisting of 12 30-day months.

Legal Debt Margin Information of the Board
Last Five Fiscal Years
As of June 30, 2006
(Dollars in thousands)

	2002	2003	2004	2005	2006
Assessed Value.....	\$41,988,859	\$45,337,763	\$53,175,365	\$55,283,639	\$59,310,826
Debt Limit	5,794,463	6,256,611	7,338,200	7,629,142	8,184,894
General Obligation	1,069,366	979,083	917,855	764,761	711,982
Less: Amount set aside for repayment of bonds	(37,965)	(37,486)	(36,226)	(38,913)	(39,984)
Total Net Debt applicable to Limit	1,031,401	941,597	881,629	725,848	671,998
Legal debt margin	<u>\$ 4,763,062</u>	<u>\$ 5,315,014</u>	<u>\$ 6,456,571</u>	<u>\$ 6,903,294</u>	<u>\$ 7,512,896</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>17.80%</u>	<u>15.05%</u>	<u>12.01%</u>	<u>9.51%</u>	<u>8.21%</u>

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

BOARD'S INTEREST RATE SWAP AGREEMENTS

The Board has previously entered into the interest rate swap agreements set forth in the table below.

Series	Counterparty	Trade Date	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
1997A	Royal Bank of Canada	11/16/2006	12/1/2007	\$162,785,000	12/1/2028	5.25%	70% of LIBOR + .28%
1997A	Bank of America	8/19/2005	12/1/2007	\$100,000,000	12/2/2030	5.25%	70% of LIBOR + .28%
2000C	Royal Bank of Canada	2/13/2007	3/1/2007	\$61,100,000	3/1/2032	3.823%	70% of LIBOR
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 – 3/1/33: 70% of LIBOR
	Bank of America	2/4/2003	2/13/2003	\$73,510,000	3/1/2033	3.782%	Through 3/1/07: BMA 3/1/07 – 3/1/33: 70% of LIBOR
2003D	Bear Stearns	9/6/2006	3/1/2007	\$185,350,000	3/1/2034	70% of LIBOR (1 Month)	65.02% of LIBOR (5 year)
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 ¹	3/31/2004	4/6/2004	\$298,075,000	3/1/2032	70% of LIBOR	X% of LIBOR
2004C	Royal Bank of Canada	2/13/2007	3/1/2007	\$124,320,000	3/1/2035	3.825%	70% of LIBOR
2005A	Loop Capital Markets ²	10/5/2005	11/1/2005	\$116,151,000	12/1/2031	BMA Index	70% of LIBOR + 52.4 bp
	Merrill Lynch & Co.	10/5/2005	11/1/2005	\$77,434,000	12/2/2031	BMA Index	80.76% Straight Ratio
2005D-1 & 2005E	Loop Capital Markets ²	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) Loop Capital Markets backed by Deutsche Bank.

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 "Existing Swap Agreements") expose the Board to certain risks. Should the market value of the swaps become positive, the Board may be exposed to the credit risk of the swap providers. If a swap provider's credit rating declines below specified rating levels and the market value of the swap reaches certain threshold amounts, the Existing Swap Agreements provide that the market value of the

swap will be collateralized by the swap provider with U.S. government securities. Collateral would be posted with a third-party custodian.

The Board will be exposed to "basis risk" should the rate paid on the bonds subject to an Existing Swap Agreement exceed the rate payable to the Board pursuant to the related Existing Swap Agreements. Should any adverse basis differential occur while an Existing Swap Agreement is in effect, the rate paid on the bonds that are subject to the Existing Swap Agreement will be higher than the expected fixed rate, and therefore the expected interest cost savings may not be realized.

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

Employee Pension Obligations

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 APPENDIX A – "Financial Statements of the Board of Education of the City of Chicago – Note (12)." The 1995 Amendatory Act provided that by fiscal year 1999 the Pension Fund would be funded using the same actuarial funding method as the Illinois Teachers' Retirement Fund. Applicable provisions of the Illinois Pension Code provide that this method will cause the ratio of the actuarially determined value of the assets of the Pension Fund to its actuarially determined accrued liabilities (or "Funded Ratio") to equal 90% by fiscal year 2045. As of June 30, 2006, 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 78.00%.

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 was required to contribute \$80 million to the Pension Fund in fiscal year 2007 and will be required to contribute \$130 million to the Pension Fund in fiscal year 2008.

Other Post-Employment Benefits

Eligible teacher and administrator retirees of the Board are provided healthcare benefits under a plan administered and funded by the Pension Fund (the "Health Insurance Program"). Current State law limits the amount that the Pension Fund may contribute to the Health Insurance Program to \$65,000,000 annually and it also limits payments to reimburse individual plan participants to 75% of actual health care costs. The spending limit has changed six times within the last twenty years and is subject to further change if new legislation is passed.

The Board contributes to the Pension Fund on a pay-as-you-go basis to the extent the Funded Ratio of the Pension Fund would otherwise fall below 90% (see "Employee Pension Obligations -Funding of Pension Obligations"). Amounts diverted from the Pension Fund to the Health Insurance Program would reduce the Funded Ratio of the Pension Fund.

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension* ("GASBS 45") for retiree healthcare

benefits. Although the Board is not required to adopt the standards set forth in GASBS 45 until its fiscal year 2008, the Board adopted such standards in its fiscal year 2006 financial statements.

The Board has commissioned actuarial studies which have provided preliminary results for consideration, under several actuarial funding methods and sets of assumptions. Pursuant to such studies, the total actuarial liability, and the annual required contribution, for the Health Insurance Program as of June 30, 2005 has been estimated to be \$2,735,780,000 and \$213,316,000 respectively. This estimate represents the amount of healthcare benefits under the Health Insurance Program, without any assumption as to a limit on the amount the Pension Fund may divert to the Health Insurance Program. If the \$65,000,000 cap were to remain in place as an effective limit, the total actuarial liability and annual required contribution estimates would be substantially reduced.

Debt Management Policy

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 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 for the Bonds 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 (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 of the MPEA is appointed by the Governor, with the approval of the Mayor. MPEA receives revenue from the operation of its facilities and from the imposition of sales and other consumption-related taxes.

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

Chicago School Finance Authority

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 APPENDIX 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, \$127,795,000 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 – Outstanding Debt Obligations – Board's Overlapping Debt Schedule."

THE REAL PROPERTY TAX SYSTEM

Real Property Assessment, Tax Levy and Collection Procedures

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

Substantially all (approximately 99.99%) of the "Equalized Assessed Valuation" (described below) of taxable property in the School District is located in Cook County (the "County"). The remainder is located in DuPage County. Accordingly, unless otherwise indicated, the information set forth under this caption and elsewhere in this Official Statement with respect to taxable property of the School District does not reflect the portion situated in DuPage County. The Illinois laws relating to real property are contained in the Illinois Property Tax Code, 35 ILCS 200/1-1, et seq., as amended (the "Property Tax Code").

Assessment. The Cook County Assessor (the "Assessor") is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was reassessed in tax year 2006 and will be reassessed in 2009. The suburbs in the northern and northwestern portions of the County were reassessed in tax year 2004. The suburbs in the western and southern portions of the County were 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 fourteen 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 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 and have fully and timely paid their taxes may file an objection in the Circuit Court of Cook County. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct the Assessed Value, and thus reduce the amount of taxes due, by issuing a Certificate of Error.

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

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

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. See "- Property Tax Extension Limitation Law; Issuance of Alternate Bonds" below. For a listing of the Equalization Factors for the ten years ended December 31, 2006, see "- Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1997-2006."

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 \$5000. 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 \$70,000 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 \$45,000 or less. In general, the exemption limits the annual real property tax bill of such property by granting to qualifying senior citizens an exemption as to a portion of the valuation of their property. 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.

The 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 2005, the Alternative General Homestead Exemption applies for the assessment years 2005, 2006 and 2007. If the general assessment year for the property is 2006, the Alternative General Homestead Exemption applies for the assessment years 2006, 2007 and 2008. Lastly, if the general assessment year for the property is 2008, the Alternative General Homestead Exemption applies for the assessment years 2008, 2009 and 2010. 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. In the 2007 legislative session, Senate Bill 13 has been introduced to extend the Alternative General Homestead Exemption law for three more years. Pursuant to Senate Bill 13, the maximum exemption will increase \$20,000 in Equalized Assessed Valuation to \$60,000 in Equalized Assessed Valuations, although in Cook County the increase will take effect over a staggered three year assessment period. If passed, the new limits would apply to all counties upon adoption by ordinance.

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 2005 was September 1, 2006. It is possible that delays in the assessment process or changes to the assessment appeal process described above will cause delays in the preparation and mailing of second installment tax bills in future years.

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

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

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

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

Property Tax Extension Limitation Law; Issuance of Alternate Bonds

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

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

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

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

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

Bond Issue Notification Act

The Bond Issue Notification Act (the "Bond Issue Notification Act") requires a public hearing to be held by any governmental unit proposing to sell non-referendum general obligation bonds or limited bonds subject to backdoor referendum. The public hearing is intended to require the governing body approving the bond issue to explain the reasons for the proposed issuance and allow persons desiring to be heard an opportunity to present written or oral testimony.

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 1996-2005

(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				
2005	\$13,420,538	\$1,842,613	\$10,502,698	\$462,099	\$26,227,948	2.7320	\$59,304,530	Not available ⁽¹⁰⁾	Not available ⁽¹⁰⁾
2004	12,998,216	1,883,047	10,401,428	465,464	25,738,155	2.5757	55,283,639	\$262,080,627	21.09%
2003	12,677,199	2,233,572	10,303,731	487,680	25,702,182	2.4598	53,168,632	263,482,258	20.18
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	189,362,475	23.94
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51
2000	8,758,682	1,966,921	8,807,444	342,942	19,875,989	2.2235	40,480,077	165,520,130	24.46
1999	6,777,400	2,021,411	7,910,838	282,255	16,991,904	2.2505	35,354,802	124,544,158	28.39
1998	6,646,198	2,047,577	7,848,335	267,006	16,809,116	2.1799	33,940,146	112,606,894	30.16
1997	6,554,717	2,077,044	7,809,486	262,032	16,703,279	2.1489	33,349,557	106,282,207	31.40
1996	5,843,068	1,930,178	7,338,644	255,507	15,367,397	2.1517	30,765,001	100,460,113	30.64

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

(2) Source: Illinois Department of Revenue.

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

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

(5) Residential, six units and under.

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

(7) Industrial/Commercial.

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

(9) Triennial updates of assessed valuation occurred in years 1997, 2000, 2003 and 2006.

(10) Tax Levy Year 2005 not available as of the date of this Official Statement.

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

Levy Year ⁽²⁾	Extension	First Year Collections		Cumulative Collections ⁽¹⁾	
		Amount	Percent	Amount	Percent
2006	\$1,896,343	\$ 835,191	44.0%	\$ 835,191	44.0%
2005	1,794,063	1,728,522	96.3%	1,760,644	98.1%
2004	1,716,111	1,565,982	91.3%	1,707,905	99.5%
2003	1,670,337	1,500,238	89.8%	1,640,957	98.2%
2002	1,614,473	1,548,369	95.9%	1,583,602	98.1%
2001	1,571,962	1,519,630	96.7%	1,550,949	98.7%
2000	1,503,488	1,446,847	96.2%	1,472,180	97.9%
1999	1,451,206	1,408,124	97.0%	1,425,654	98.2%
1998	1,416,346	1,317,872	93.0%	1,379,796	97.4%
1997	1,362,211	1,304,701	95.8%	1,322,796	97.1%

- (1) Tax receivables is net of Estimated Allowance for Uncollectible taxes (the "Allowance"). The Allowance for the calendar year 2006 levy is 3.5% of the levy.
- (2) The 2006 tax extensions year reflects collections through July 9, 2007.

Source: Board of Education of the City of Chicago

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005
<u>Tax Rates by Board Fund:⁽²⁾</u>									
Educational	\$2.998	\$3.059	\$3.000	\$2.756	\$2.712	\$2.670	\$2.258	\$2.301	\$2.142
Special Education	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
School District Medicare	0.022	0.044	0.048	0.047	0.031	0.017	0.000	0.000	0.000
Agricultural Science	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
Playground and Recreational	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
Workers' and Unemployment									
Compensation Tort Immunity	0.246	0.192	0.206	0.141	0.191	0.150	0.219	0.131	0.228
Teachers' Pension	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Operation and Maintenance	0.719	0.722	0.701	0.640	0.685	0.609	0.565	0.576	0.565
Bond Redemption & Interest	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals	0.099	0.155	0.149	0.130	0.125	0.116	0.100	0.096	0.091
Board Subtotal	<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>	<u>\$3.026</u>
<u>Other Major Government Units:</u>									
City of Chicago	\$2.024	\$1.998	\$1.860	\$1.660	\$1.637	\$1.591	\$1.380	\$1.302	\$1.243
Community College District	0.356	0.354	0.347	0.311	0.307	0.280	0.246	0.242	0.234
School Finance Authority	0.270	0.268	0.255	0.223	0.223	0.177	0.151	0.177	0.127
Chicago Park District	0.665	0.653	0.627	0.572	0.567	0.545	0.464	0.455	0.443
Water Reclamation District	0.451	0.444	0.419	0.415	0.401	0.371	0.361	0.347	0.315
Cook County	0.919	0.911	0.854	0.824	0.746	0.690	0.630	0.593	0.533
Cook County Forest Preserve	0.074	0.072	0.070	0.069	0.067	0.061	0.059	0.060	0.060
Other Unit Subtotal	<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>\$3.176</u>	<u>\$2.955</u>
TOTAL	\$8.843	\$8.872	\$8.536	\$7.788	\$7.692	\$7.277	\$6.433	\$6.280	\$5.981

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

(2) The 1995 Amending 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.

TAX EXEMPTION

Summary of Co-Bond Counsel Opinion

Co-Bond Counsel is of the opinion that under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), Co-Bond Counsel is of the opinion that interest on the Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. Co-Bond Counsel is further of the opinion that the Bonds are not “private activity bonds” within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Bonds is not exempt from Illinois income taxes.

The Code contains certain requirements that must be satisfied from and after the date of issuance of the Bonds in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds.

Exclusion from Gross Income: Requirements

The Code sets forth certain requirements that must be satisfied on a continuing basis in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Among these requirements are the following:

Limitations on Private Use. The Code includes limitations on the amount of Bond proceeds that may be used in the trade or business of, or used to make or finance loans to, persons other than governmental units.

Investment Restrictions. Except during certain “temporary periods,” proceeds of the Bonds and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a “minor portion”) may generally not be invested in investments having a yield that is “materially higher” (1/8 of one percent) than the yield on the Bonds.

Rebate of Arbitrage Profit. Unless the Board qualifies for an exemption, earnings from the investment of the “gross proceeds” of the Bonds in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Bonds are required to be paid to the United States at periodic intervals. For this purpose, the term “gross proceeds” includes the original proceeds of the Bonds, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Bonds.

Covenants to Comply

The Board has covenanted in the Indenture to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Bonds.

Risks of Non-Compliance

In the event that the Board fails to comply with the requirements of the Code, interest on the Bonds may become includable in the gross income of the owners thereof for federal income tax purposes

retroactive to the date of issue. In such event, the Indenture requires neither acceleration of payment of principal of, or interest on, the Bonds nor payment of any additional interest or penalties to the owners of the Bonds.

Federal Income Tax Consequences

Pursuant to Section 103 of the Code, interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE BONDS.

Cost of Carry. Owners of the Bonds will generally be denied a deduction for otherwise deductible interest on any debt which is treated for federal income tax purposes as incurred or continued to purchase or carry the Bonds. As discussed below, special allocation rules apply to financial institutions.

Corporate Owners. Interest on the Bonds is generally taken into account in computing the earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Bonds is taken into account not only in computing the corporate alternative minimum tax but also the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

Individual Owners. Receipt of interest on the Bonds may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

Certain Blue Cross or Blue Shield Organizations. Receipt of interest on the Bonds may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

Property or Casualty Insurance Companies. Receipt of interest on the Bonds may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

Financial Institutions. Financial institutions may be denied a deduction for their otherwise allowable interest expense in an amount determined by reference, in part, to their adjusted basis in the Bonds.

Foreign Personal Holding Company Income. A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Bonds held by such a company is properly allocable to the shareholder.

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

RATINGS

The Bonds have received ratings of "AAA" by Standard & Poor's, "AAA" by FitchRatings ("Fitch") and "Aaa" by Moody's based on the Bond Insurance Policy for the Bonds to be issued by the Bond Insurer. The Bonds have also received ratings of "A+" by Standard & Poor's, "A+" by Fitch and "A2" by Moody's based upon the creditworthiness of the Board and without regard to bond insurance or other credit enhancement.

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

FINANCIAL STATEMENTS

The financial statements of the Board as of and for the fiscal year indicated in such financial statements are included herein. See APPENDIX A –“FINANCIAL STATEMENTS OF THE BOARD OF EDUCATION OF THE CITY OF CHICAGO.”

FINANCIAL ADVISOR

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

UNDERWRITING

Banc of America Securities LLC, as Representative of the Underwriters identified on the cover page of this Official Statement (the “Representative”), has agreed to purchase the Bonds at an aggregate purchase price of par and the Board will pay the Underwriters an underwriting fee of \$721,962.50. The Board shall pay this underwriting fee from other funds of the Board rather than from Bond proceeds. The Bonds will be offered to the public at the price of par, as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds, if they are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public.

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

CERTAIN VERIFICATIONS

Causey Demgen & Moore Inc. (the “Verifier”), independent certified public accountants, upon delivery of the Bonds, will deliver to the Underwriters a report stating that the firm, at the request of the Board and the Underwriters, has reviewed the mathematical accuracy of certain computations based on certain assumptions relating to (i) the sufficiency of the principal and interest received from the investment in the Governmental Obligations, together with any initial cash deposit, to meet the timely payment of the applicable principal or redemption price of, and interest on the Refunded Bonds, as described under “PLAN

OF REFUNDING” and “PLAN OF FINANCE,” and (ii) the actuarial yields on the Bonds and the Government Obligations; such computations with respect to such yields to be used to support the conclusion of Co-Bond Counsel that the Bonds are not “arbitrage bonds” under Section 148 of the Code. The Verifier will express no opinion on the attainability of any assumptions or the tax-exempt status of the Bonds.

CERTAIN LEGAL MATTERS

Issuance of the Bonds is subject to the issuance of the approving legal opinion of Katten Muchin Rosenman LLP and Gonzalez, Saggio and Harlan, L.L.C., both of Chicago, Illinois, as Co-Bond Counsel. The proposed form of such opinion is included herein as APPENDIX D. Certain legal matters will be passed upon for the Board by Patrick J. Rocks, General Counsel, and by its special counsel, Steve Lawrence & Associates, P.C., Chicago, Illinois; and for the Underwriters by their Co-Counsel, McGuireWoods LLP, Chicago, Illinois and Charity & Associates, P.C., Chicago, Illinois.

LITIGATION

General

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

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

Contract Dispute

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

The Board recently filed a motion to dismiss the complaint for failure to state a cause of action. In the unlikely event that the case results in a finding of liability against the Board, the estimated verdict is less than \$5 million.

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 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 Official Statement.

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.

CONTINUING DISCLOSURE UNDERTAKING

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

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

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

Annual Financial Information Disclosure

The Board covenants in the Undertaking that it will disseminate its Annual Financial Information and its Audited Financial Statements, if any (as described below) to each Nationally Recognized Municipal Securities Information Repository (each, a "NRMSIR") then recognized by the Commission for purposes of the Rule and to any public or private repository designated by the State as the state depository (the "SID") and recognized as such by the Commission for purposes of the Rule. The Board is required to deliver such information so that such entities receive the information by the dates specified in the Undertaking.

"Annual Financial Information" means historical information generally consistent with information of the type set forth in this Official Statement under the following headings:

BOARD OF EDUCATION OF THE CITY OF CHICAGO:

School System

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

Board's Debt Service Schedule

The Undertaking for the Bonds requires that Annual Financial Information, excluding the Audited Financial Statements, will be provided to each NRMSIR and to the SID, if any, on or prior to 210 days after the last day of the Board's fiscal year.

"Audited Financial Statements" means the general purpose financial statements of the Board which are in conformity with generally accepted accounting principles in the United States and audited by independent auditors. The Undertaking for the Bonds requires that Audited Financial Statements will be provided to each NRMSIR and to the SID, if any, within 30 days after availability to the Board.

Events Notification; Material Events Disclosure

The Board covenants in the Undertaking for the Bonds that it will disseminate to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB") and to the SID, if any, in a timely manner the disclosure of the occurrence of an Event (as described below) with respect to the Bonds that is material, as materiality is interpreted under the Securities Exchange Act of 1934, as amended. For the Bonds, the "Events" are (i) debt service payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the Bonds; modifications to the rights of Bondholders; (viii) bond calls; (ix) defeasances; (x) release, substitution or sale of property securing repayment of the Bonds; and (xi) rating changes.

Consequences of Failure to Provide Information

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

A default under the Undertaking shall not be deemed an event of default under the Resolution or the Indenture with respect to the Bonds, and the sole remedy in the event of any failure of the Board to comply with the Undertaking shall be an action to compel performance. A failure by the Board to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

AUTHORIZATION AND MISCELLANEOUS

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

By: s/ Pedro Martinez
Chief Financial Officer

APPENDIX A

FINANCIAL STATEMENTS OF THE BOARD OF EDUCATION OF THE CITY OF CHICAGO

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chicago Public Schools (the Board of Education of the City of Chicago, the "CPS", a body politic and corporate of the State of Illinois), as of and for the year ended June 30, 2006, which collectively comprise the CPS' basic financial statements. These financial statements are the responsibility of the CPS' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1 to the basic the financial statements, as of and for the year ended June 30, 2006, the CPS adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Governmental Accounting Standards Board Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and Governmental Accounting Standards Board Statement No. 47, *Accounting for Termination Benefits*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chicago Public Schools, as of June 30, 2006, and the respective changes in financial position and the respective budgetary comparison for the General Operating Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 on our consideration of the CPS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages A-3 through A-13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Chicago, Illinois
December 1, 2006

CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

Our discussion and analysis of Chicago Public Schools' (CPS) financial performance provides an overview of the school district's financial activities for the fiscal year ended June 30, 2006. The intent of this management discussion and analysis is to look at CPS' financial performance as a whole, readers should also review the transmittal letter, financial statements and notes to the basic financial statements to further enhance their understanding of CPS' financial performance.

FINANCIAL HIGHLIGHTS

At fiscal year end, total fund balance was \$1.35 billion in fiscal year 2006, an increase of \$308.6 million. In the General Operating Fund, unreserved funds increased from \$248 million in fiscal year 2005 to \$307 million in 2006, an increase of \$59 million.

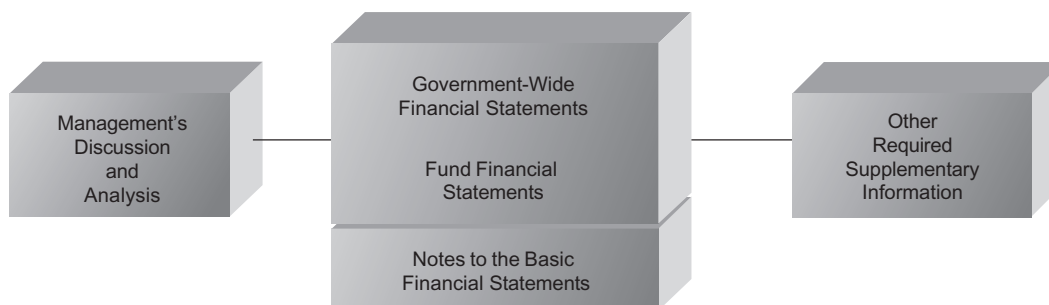
Total General Operating Fund actual revenues less expenditures exceeded budgeted resources less final appropriations by \$150 million.

During the fiscal year, CPS issued \$385.6 million in debt offerings to further fund the Capital Improvement Program while our overall credit rating remained strong.

New for the current fiscal year Comprehensive Annual Financial Report is the inclusion of a Statutory Reporting Section which presents information related to OMB Circular A-133 resulting in a document that provides our constituents and stakeholders with all financial data relevant to the Chicago Public Schools.

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

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



OVERVIEW OF THE FINANCIAL STATEMENTS

Our Comprehensive Financial Annual Report consists of a series of financial statements and accompanying notes, with the primary focus being on the school district as a whole. Government-wide financial statements including the Statement of Net Assets and the Statement of Activities provide both short-term and long-term information of CPS' financial status. The fund financial statements provide a greater level of detail of how services are financed in the short-term as well as the remaining available resources for future spending. The accompanying notes provide essential information that is not disclosed on the face of the financial statements and as such are an integral part of the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

	Governmental Activities			
	2006	2005	Difference	% Change
Current assets	\$3,288	\$2,918	\$ 370	12.7%
Capital assets, net	4,384	4,276	108	2.5%
Total Assets	<u>\$7,672</u>	<u>\$7,194</u>	<u>\$ 478</u>	6.6%
Current liabilities	\$ 877	\$ 883	\$ (6)	(0.7)%
Long-term liabilities	6,622	5,779	843	14.6%
Total Liabilities	<u>\$7,499</u>	<u>\$6,662</u>	<u>\$ 837</u>	12.6%
Net Assets:				
Invested in capital assets net of related debt	\$ 268	\$ 413	\$(145)	(35.1)%
Restricted for:				
Debt service	357	299	58	19.4%
Specific purposes	86	45	41	91.1%
Unrestricted	(538)	(225)	(313)	139.1%
Total Net Assets	<u>\$ 173</u>	<u>\$ 532</u>	<u>\$(359)</u>	(67.5)%

- **Total assets** of \$7.7 billion increased due to larger year end cash balances and new school construction and other improvement projects as part of the CPS' Capital Improvement Program.

- **Capital assets**, net of depreciation, increased \$108 million or 2.5% over the prior fiscal year due to the continued progress of the Capital Improvement Program.
- **Long-term debt** increased \$385.6 million, or 9.1%. The total long-term portion of debt outstanding and capitalized leases was \$4.20 billion in fiscal year 2005 and \$4.58 billion in fiscal year 2006. In fiscal year 2006, CPS issued \$385.6 million in Unlimited Tax Obligation Bonds to fund the Capital Improvement Program.
- **Accrued pension** increased to \$1.51 billion in fiscal year 2006 from \$1.26 billion in fiscal year 2005, an increase of \$256.9 million, or 20.4%. The year-end balance reflects the increase in the net pension obligation related to the Public School Teachers' Pension and Retirement Fund of Chicago.
- **Other postemployment benefit liabilities** of \$213.3 million were recognized for the first time as CPS early adopted GASBS 45. This liability represents actuarially determined healthcare costs associated with the Public School Teachers' Pension and Retirement Fund of Chicago.
- **Other long-term liabilities** decreased to \$312.3 million in fiscal year 2006 from \$322 million in fiscal year 2005, a decrease of \$9.6 million, or 3%. The year-end balance reflects decreases in accrued sick pay, vacation pay and tort of \$2.3 million, \$3.8 million and \$2.9 million, respectively, and increased accrued workers' compensation liabilities of \$3.2 million.
- **CPS' net assets** decreased \$359 million to \$173 million. Of this amount, \$268 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of \$443 million are reported separately to present legal constraints from debt covenants and enabling legislation. The (\$539) million of unrestricted deficit represents the shortfall CPS would experience if it had to liquidate all of its non-capital liabilities as of June 30, 2006. A deficit in unrestricted net assets should not be viewed as evidence of financial difficulties but rather as a result of different measurement focuses.

The following table presents the changes in net assets from fiscal year 2005 to 2006:

Changes in Net Assets
(Millions of dollars)

	Governmental Activities			
	2006	2005	Difference	% Change
Revenues:				
Program Revenues:				
Charges for services	\$ 12	\$ 11	\$ 1	9.1%
Operating grants and contributions	897	876	21	2.4%
Capital grants and contributions	67	22	45	204.5%
Total Program Revenues	<u>\$ 976</u>	<u>\$ 909</u>	<u>\$ 67</u>	7.4%
General Revenues:				
Property taxes	\$1,768	\$1,664	\$ 104	6.3%
Replacement taxes	185	146	39	26.7%
State aid	1,532	1,430	102	7.1%
Interest and investment earnings	77	43	34	79.1%
Miscellaneous	74	42	32	76.2%
Total General Revenues	<u>\$3,636</u>	<u>\$3,325</u>	<u>\$ 311</u>	9.4%
Total Revenues	<u>\$4,612</u>	<u>\$4,234</u>	<u>\$ 378</u>	8.9%
Expenses:				
Instruction	\$3,108	\$2,777	\$ 331	11.9%
Support services:				
Pupil support services	346	338	8	2.4%
Administrative support services	162	158	4	2.5%
Facility support services	423	380	43	11.3%
Instructional support services	465	405	60	14.8%
Food services	180	182	(2)	(1.1)%
Community services	46	43	3	7.0%
Interest expense	218	201	17	8.5%
Other	22	9	13	144.4%
Total Expenses	<u>\$4,970</u>	<u>\$4,493</u>	<u>\$ 477</u>	10.6%
Change in Net Assets	<u>\$ (358)</u>	<u>\$ (259)</u>	<u>\$ (99)</u>	38.2%
Beginning Net Assets	<u>531</u>	<u>791</u>	<u>(260)</u>	(32.9)%
Ending Net Assets	<u>\$ 173</u>	<u>\$ 532</u>	<u>\$(359)</u>	(67.5)%

Capital Assets

At June 30, 2006, the CPS had \$4.4 billion invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This amount represents a net increase (including additions, deductions and depreciation) of \$107.3 million or 2.5% over the prior fiscal year (\$000's).

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>% Change</u>
Land	\$ 231,387	\$ 244,147	\$ 12,760	5.5%
Buildings	5,481,109	5,817,188	336,079	6.1%
Construction in progress	483,742	367,733	(116,009)	(24.0)%
Equipment	100,382	122,626	22,244	22.2%
Total Capital Assets	\$ 6,296,620	\$ 6,551,694	\$ 255,074	4.1%
Less: Accumulated depreciation	(2,020,182)	(2,167,971)	(147,789)	7.3%
Total Capital Assets, net	<u>\$ 4,276,438</u>	<u>\$ 4,383,723</u>	<u>\$ 107,285</u>	2.5%

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

Debt and Capitalized Lease Obligations

In November 2005, CPS issued \$53,750,000 in Unlimited Tax General Obligation Bonds (Series 2005C) at a premium of \$4,124,158. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, to pay capitalized interest, and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of \$54,261,685 in the Capital Improvement Fund.

In December 2005, CPS issued \$325,000,000 in Unlimited Tax General Obligation Bonds (Series 2005DE). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of \$323,793,169 in the Capital Improvement Fund.

In June 2006, CPS issued \$6,852,800 in Unlimited Tax General Obligation Bonds (Series 2006A) at a discount of \$325,508. The proceeds from these bonds are being used as part of the Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of \$6,385,392.

In August 2005, CPS sold an option to Bank of America N.A. under which CPS may be caused to enter into an interest rate swap associated with \$100,000,000 of the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007) as a means of monetizing the call option of these bonds in a low interest rate environment. The intention of entering into the swap was to effectively and economically refund \$100,000,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing an upfront payment of \$18,345,000 to be used for costs of issuance and for debt service requirements in fiscal year 2006. Any swap payments payable by CPS upon exercise of the option will be periodic and payable from the same revenue source pledged to the refunding bonds to be issued at that time.

In October 2005, CPS entered into two interest rate swaps with Merrill Lynch Capital Services, Inc. and Loop Capital Markets LLC backed by Deutsche Bank. The interest rate swaps are associated with the Series 2005A bonds. The intention of entering into the swaps was to effectively change the fixed interest rate on the Series 2005A bonds from the stated coupon on the bonds to a lower interest rate. Any swap payments payable by CPS will be paid from the General Operating Fund.

As of June 30, 2006, the CPS had \$4.64 billion in total debt, including accreted interest, and capitalized lease obligations outstanding versus \$4.26 billion last year, an increase of 8.9%. For more detailed information please refer to Notes 8 through 10 to the basic financial statements.

The Chicago School Finance Authority (SFA) was created in January 1980 to exercise oversight and control over the financial affairs of the CPS. The SFA issued debt to fund construction and provide working capital. The principal amount of the SFA bonds outstanding as of June 30, 2006, net of bonds advance refunded or defeased is \$268 million. The SFA bonds are not a direct or contingent obligation of the CPS and the 1995 Amendatory Act suspended the oversight powers of the SFA through the end of 2010. For more detailed information please refer to Note 13 to the basic financial statements.

Pension Funding

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

State statutes determine the CPS' employer-required contribution to the Pension Fund, with the exception of federal funds. As of June 30, 2005, the funded ratio of the Pension Fund was 79% and the CPS has recorded an estimated pension liability of \$1.51 billion in the accompanying financial statements, as determined under generally accepted accounting principles. Because the funded ratio was below 90%, the CPS was required to make a \$26 million contribution to the Pension Fund under the statutory requirements during fiscal year 2006.

All career service employees of the CPS, except CPS employees who are members of the Public School Teachers' Pension and Retirement Fund, participate in the Municipal Employees' Annuity and Benefit Fund of Chicago (the "Annuity Fund"). Covered employees are required by State statute to contribute 8.5% of their salary. In fiscal year 2006, as in previous fiscal years, the CPS paid a portion, 7%, or \$36 million of the required employees' contribution for most employees. For more detailed information please refer to the Note 12 to the basic financial statements.

OVERVIEW OF FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

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

CPS maintains three significant governmental funds: General Operating, Capital Projects, and Debt Service. The following schedules presents a summary of the general operating fund, capital projects fund and debt service fund revenues and other financing sources by type and expenditures by program for the period ended June 30, 2006 as compared to June 30, 2005. It also depicts the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

Total Revenues and Other Financing Sources
(Millions of dollars)

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>2006 Percent of Total</u>	<u>Increase (Decrease) From 2005</u>	<u>Percent Increase (Decrease) from 2005</u>
Revenues:					
Property taxes	\$1,718	\$1,639	36.4%	\$ 79	4.8%
Replacement taxes	185	146	3.8%	39	26.7%
State aid	1,603	1,507	32.6%	96	6.4%
Federal aid	776	763	15.8%	13	1.7%
Investment income	72	43	1.5%	29	67.4%
Other	144	103	2.9%	41	39.8%
Subtotal	<u>\$4,498</u>	<u>\$4,201</u>	<u>91.5%</u>	<u>\$ 297</u>	<u>7.1%</u>
Other financing sources	<u>420</u>	<u>291</u>	<u>8.5%</u>	<u>129</u>	<u>44.3%</u>
Total	<u><u>\$4,918</u></u>	<u><u>\$4,492</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 426</u></u>	<u><u>9.5%</u></u>
Expenditures:					
Instruction	\$2,539	\$2,429	53.3%	\$ 110	4.5%
Pupil support services	334	323	7.2%	11	3.4%
General support services	895	822	19.4%	73	8.9%
Food services	173	174	3.8%	(1)	(0.6)%
Community services	46	42	1.0%	4	9.5%
Teachers' pension	75	65	1.6%	10	15.4%
Capital outlay	311	389	6.7%	(78)	(20.1)%
Debt service	213	316	4.6%	(103)	(32.6)%
Other	23	6	0.5%	17	283.3%
Total	<u><u>\$4,609</u></u>	<u><u>\$4,566</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 43</u></u>	<u><u>0.9%</u></u>
Change in Fund Balance	<u><u>\$ 309</u></u>	<u><u>\$ (74)</u></u>			

General Operating Fund

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

Revenues:

Revenues and Other Financing Sources (Millions of dollars)

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>2006 Percent of Total</u>	<u>Increase (Decrease) From 2005</u>	<u>Percent Increase (Decrease) from 2005</u>
Property taxes	\$1,666	\$1,588	39.7%	\$ 78	4.9%
Replacement taxes	132	95	3.2%	37	38.9%
State aid	1,492	1,417	35.6%	75	5.3%
Federal aid	758	746	18.1%	12	1.6%
Investment income	37	14	0.9%	23	164.3%
Other	101	85	2.4%	16	18.8%
Subtotal	<u>\$4,186</u>	<u>\$3,945</u>	<u>99.9%</u>	<u>\$241</u>	<u>6.1%</u>
Other financing sources	<u>4</u>	<u>—</u>	<u>0.1%</u>	<u>—</u>	<u>400.0%</u>
Total	<u>\$4,190</u>	<u>\$3,945</u>	<u>100.0%</u>	<u>\$241</u>	<u>6.1%</u>

Property taxes increased by \$78.3 million from fiscal year 2006 due to a growing tax base, increases in tax levies and in the number of new properties, and decreases in refunds.

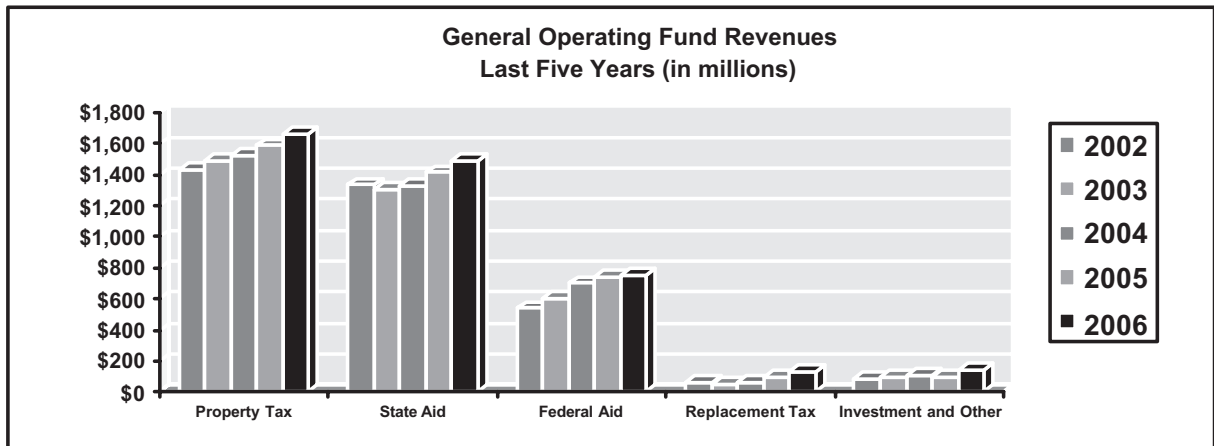
Personal property replacement taxes increased \$37.1 million from fiscal year 2005, due to foreign tax holiday, increased collections and decreases in corporate refund reserves.

State aid increased by \$74.9 million due to a \$200 per pupil increase in foundation level, up to \$5,164 per student and increased teacher pension funding.

Federal aid increased \$11.3 million due to increased funding in Title I and E-rate revenue recognition.

Investment income increased \$22.9 million from fiscal year 2005, due to higher interest rates and higher cash balances.

Other income increased \$16 million from fiscal year 2005, due to the one time recognition of unidentified escheat of \$7.9 million and increases to City of Chicago on behalf pension payment of \$6.7 million.



Expenditures:

(Millions of dollars)

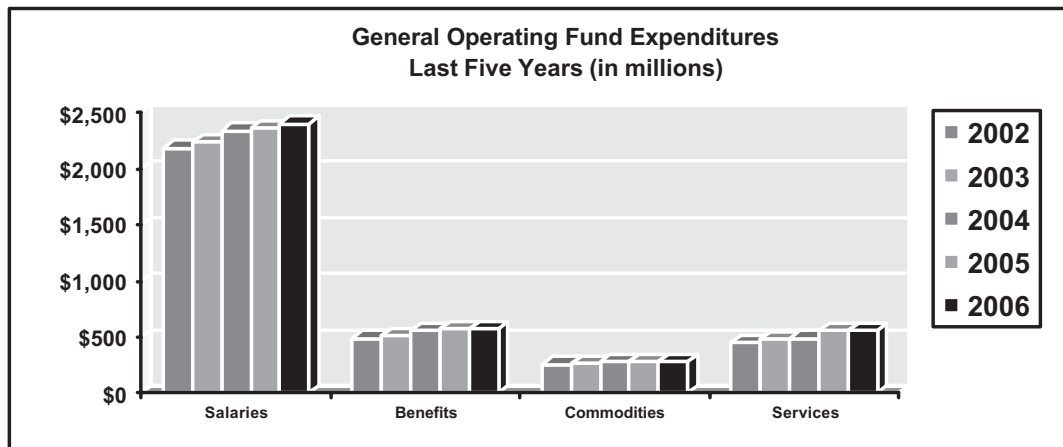
	2006 Amount	2005 Amount	2006 Percent of Total	Increase (Decrease) From 2005	Percent Increase (Decrease) from 2005
Salaries	\$2,454	\$2,366	60.1%	\$ 88	3.7%
Benefits	635	563	15.5%	72	12.8%
Commodities	277	280	6.8%	(3)	(1.1)%
Services	623	556	15.3%	67	12.1%
Other	96	91	2.4%	5	5.5%
Total	<u>\$4,085</u>	<u>\$3,856</u>	<u>100.0%</u>	<u>\$229</u>	5.9%

Salaries were under budget by \$25 million due to teacher salaries, which were under budget by \$2 million, and career service salaries which were under budget by \$23 million.

Benefit charges were under budget by \$39 million primarily due to hospitalization costs that were under budget by \$36 million.

Commodities were under budget by \$30 million due to reduced spending on food, textbooks and supplies of \$6 million, \$15 million and \$7 million, respectively.

Services increased over fiscal year 2005 primarily due to increased spending related to charter schools.



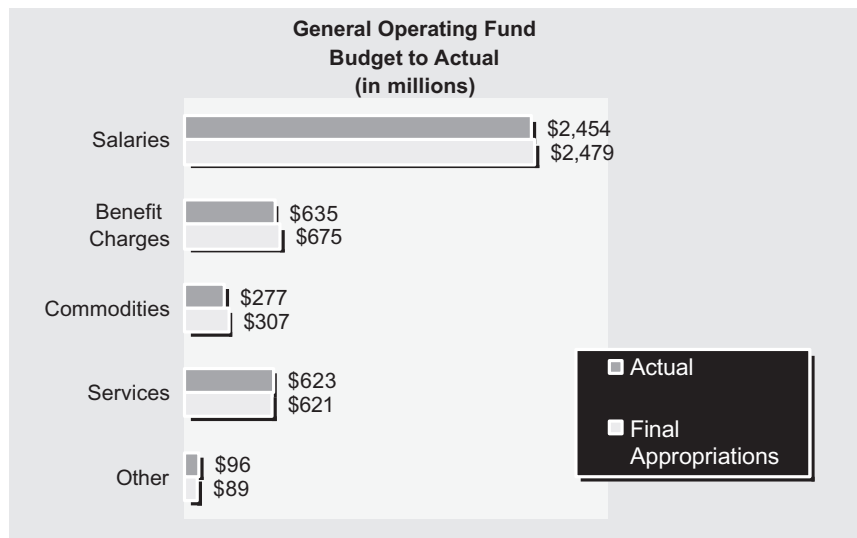
Notes to Basic Financial Statements

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

BUDGETARY HIGHLIGHTS

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

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



In July 2005, the Board adopted a balanced budget for fiscal year 2006 that reflected total resources, including \$50 million of available fund balances, and appropriations of \$4.21 billion for the General Operating Fund.

In July 2006, the Board adopted a balanced budget for fiscal year 2007 that reflected total resources, including \$105 million of available fund balances, and appropriations of \$4.41 billion for the General Operating Fund.

REQUESTS FOR INFORMATION

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

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

Or visit our website at: <http://www.cps.k12.il.us> for a complete copy of this report and other financial information.

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF NET ASSETS

June 30, 2006

(Thousands of Dollars)

	Governmental Activities
ASSETS:	
Cash and investments	\$ 861,531
Cash and investments in escrow	852,166
Cash and investments held in school internal accounts	28,522
Property taxes receivable, net of allowance	926,515
Other receivables:	
Replacement taxes	32,341
State aid, net of allowance	338,395
Federal aid	178,169
Other	35,476
Other assets	34,915
Land and construction in progress	611,881
Buildings, building improvements and equipment, net of accumulated depreciation	3,771,842
Total Assets	<u>\$7,671,753</u>
LIABILITIES:	
Accounts payable	\$ 216,580
Accrued payroll and benefits	526,887
Amount held for student activities	28,522
Other accrued liabilities	4,000
Deferred revenue	14,007
Interest payable	32,274
Current portion of long-term debt and capitalized lease obligations	54,923
Long-term liabilities:	
Debt, net of premiums and discounts	4,144,957
Capitalized lease obligations	438,335
Pension	1,513,023
Other postemployment benefits	213,316
Other benefits and claims	312,318
Total Liabilities	<u>\$7,499,142</u>
NET ASSETS:	
Invested in capital assets, net of related debt	\$ 268,190
Restricted for:	
Debt service	357,409
Specific purposes	85,891
Unrestricted	(538,879)
Total Net Assets	<u>\$ 172,611</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006
(Thousands of Dollars)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	\$3,107,897	\$ 3,145	\$484,231	\$44,098	\$(2,576,423)
Support services:					
Pupil support services	346,434	—	34,869	5,801	(305,764)
Administrative support services	161,802	—	51,453	2,709	(107,640)
Facility support services	422,731	—	13,455	6,202	(403,074)
Instructional support services	465,106	—	115,471	6,599	(343,036)
Food services	179,725	9,317	164,658	1,044	(4,706)
Community services . . .	46,205	—	32,779	279	(13,147)
Interest expense	217,848	—	—	—	(217,848)
Other	23,404	—	—	—	(23,404)
Total Governmental Activities	<u>\$4,971,152</u>	<u>\$12,462</u>	<u>\$896,916</u>	<u>\$66,732</u>	<u>\$(3,995,042)</u>
General Revenues:					
Taxes:					
Property taxes					\$ 1,768,457
Replacement taxes					184,700
State aid					1,532,169
Interest and investment earnings					71,972
Gain recognized from swaps					5,312
Miscellaneous					73,629
Total General Revenues					<u>\$ 3,636,239</u>
Change in net assets					\$ (358,803)
Net assets — beginning					<u>531,414</u>
Net assets — ending					<u>\$ 172,611</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

BALANCE SHEET — GOVERNMENTAL FUNDS

June 30, 2006

(Thousands of Dollars)

	<u>General Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
ASSETS:				
Cash and investments	\$ 785,726	\$ —	\$ 75,805	\$ 861,531
Cash and investments in escrow	5,399	581,305	265,462	852,166
Cash and investments held in school internal accounts	28,522	—	—	28,522
Receivables:				
Property taxes, net of allowance	899,039	—	27,476	926,515
Replacement taxes	32,341	—	—	32,341
State aid, net of allowance	338,395	—	—	338,395
Federal aid	173,216	4,953	—	178,169
Other	9,048	21,726	4,702	35,476
Due from other funds	69,872	7,750	20,406	98,028
Other assets	8,935	—	—	8,935
Total Assets	<u>\$2,350,493</u>	<u>\$615,734</u>	<u>\$393,851</u>	<u>\$3,360,078</u>
LIABILITIES AND EQUITY:				
LIABILITIES:				
Accounts payable	\$ 184,857	\$ 34,577	\$ 13,409	\$ 232,843
Accrued payroll and benefits	467,533	—	—	467,533
Amount held for student activities	28,522	—	—	28,522
Due to other funds	28,156	69,872	—	98,028
Other accrued liabilities	4,000	—	—	4,000
Deferred property tax revenue	889,249	—	27,175	916,424
Other deferred revenue	252,279	6,301	—	258,580
Total Liabilities	<u>\$1,854,596</u>	<u>\$110,750</u>	<u>\$ 40,584</u>	<u>\$2,005,930</u>
EQUITY:				
Fund Balances:				
Reserved:				
Reserved for encumbrances	\$ 102,286	\$220,965	\$ —	\$ 323,251
Reserved for restricted donations	1,503	—	—	1,503
Reserved for specific purposes	84,388	—	—	84,388
Reserved for debt service	—	—	353,267	353,267
Unreserved:				
Designated to provide operating capital	218,400	—	—	218,400
Undesignated	89,320	284,019	—	373,339
Total Equity	<u>\$ 495,897</u>	<u>\$504,984</u>	<u>\$353,267</u>	<u>\$1,354,148</u>
Total Liabilities and Equity	<u>\$2,350,493</u>	<u>\$615,734</u>	<u>\$393,851</u>	<u>\$3,360,078</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

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

June 30, 2006

(Thousands of Dollars)

Total fund balances — governmental funds	\$ 1,354,148
Prepaid assets and deferred charges are recorded as expenditures in governmental funds. The Statement of Net Assets includes these amounts as other assets.	
Prepaid interest	140
Deferred charges — bond issuance costs	25,840
The cost of capital assets (land, buildings and improvements and equipment) purchased or constructed is reported as an expenditure in the governmental funds. The Statement of Net Assets includes those capital assets among the assets of the CPS as a whole. The cost of those capital assets are allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in the governmental funds.	
Costs of capital assets	6,551,693
Accumulated depreciation	(2,167,970)
Liabilities applicable to the CPS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest payable on debt and other long-term obligations is not recorded in the governmental funds but they are reported in the Statement of Net Assets. All liabilities, both current and long-term, are reported in the Statement of Net Assets.	
Debt, net of premiums and discounts	\$(4,177,210)
Capitalized lease obligations	(461,005)
Pension	(1,513,023)
Other postemployment benefits	(213,316)
Other benefits and claims	<u>(366,983)</u>
	(6,731,537)
Interest payable	(20,700)
Revenues that have been deferred or unearned in the governmental funds but are recognized as revenue in the government-wide financial statements.	
Deferred property tax revenue	916,424
Other deferred revenue	<u>244,573</u>
Net Assets	<u><u>\$ 172,611</u></u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

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

For the Fiscal Year Ended June 30, 2006

With Comparative Amounts for the Fiscal Year Ended June 30, 2005

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2006	Total Fiscal Year Ended June 30, 2005
REVENUES:					
Property taxes	\$1,666,118	\$ —	\$ 52,131	\$1,718,249	\$1,639,237
Replacement taxes	131,639	—	53,061	184,700	145,724
State aid	1,492,361	—	110,274	1,602,635	1,507,115
Federal aid	757,731	17,900	—	775,631	762,955
Interest and investment income	36,874	22,346	12,727	71,947	43,215
Other	101,129	21,381	21,910	144,420	102,654
Total Revenues	<u>\$4,185,852</u>	<u>\$ 61,627</u>	<u>\$250,103</u>	<u>\$4,497,582</u>	<u>\$4,200,900</u>
EXPENDITURES:					
Instruction	\$2,538,909	\$ —	\$ —	\$2,538,909	\$2,429,014
Pupil support services	333,968	—	—	333,968	323,225
Administration support services	155,980	—	—	155,980	151,529
Facilities support services	357,106	—	—	357,106	316,195
Instructional support services	379,955	—	—	379,955	353,859
Food services	172,774	—	—	172,774	173,872
Community services	46,179	—	—	46,179	42,325
Teacher's pension and retirement benefits	75,398	—	—	75,398	65,045
Capital outlay	—	310,817	—	310,817	389,450
Debt service	1,420	—	213,232	214,652	315,809
Other	23,404	—	—	23,404	5,912
Total Expenditures	<u>\$4,085,093</u>	<u>\$ 310,817</u>	<u>\$213,232</u>	<u>\$4,609,142</u>	<u>\$4,566,235</u>
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES	<u>\$ 100,759</u>	<u>\$(249,190)</u>	<u>\$ 36,871</u>	<u>\$ (111,560)</u>	<u>\$ (365,335)</u>
OTHER FINANCING SOURCES (USES)					
Gross amounts from debt issuances ..	\$ —	\$ 385,603	\$ —	\$ 385,603	\$ 524,260
Proceeds from notes	—	—	—	—	5,500
Premiums	—	4,124	—	4,124	43,450
Discounts	—	(326)	—	(326)	—
Proceeds from swaps	—	—	19,345	19,345	—
Capital leases	3,700	—	—	3,700	—
Sales of general capital assets	—	7,596	—	7,596	—
Payment to refunded bond escrow agent	—	—	—	—	(282,478)
Transfers in/(out)	445	(2,796)	2,351	—	—
Total other financing sources (uses)	<u>\$ 4,145</u>	<u>\$ 394,201</u>	<u>\$ 21,696</u>	<u>\$ 420,042</u>	<u>\$ 290,732</u>
NET CHANGE IN FUND BALANCE	<u>\$ 104,904</u>	<u>\$ 145,011</u>	<u>\$ 58,567</u>	<u>\$ 308,482</u>	<u>\$ (74,603)</u>
Fund Balances, beginning of period ..	<u>390,993</u>	<u>359,973</u>	<u>294,700</u>	<u>1,045,666</u>	<u>1,120,269</u>
Fund Balances, end of period	<u><u>\$ 495,897</u></u>	<u><u>\$ 504,984</u></u>	<u><u>\$353,267</u></u>	<u><u>\$1,354,148</u></u>	<u><u>\$1,045,666</u></u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGE IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the Fiscal Year Ended June 30, 2006
(Thousands of Dollars)

Total net change in fund balances — governmental funds	\$ 308,482
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceed the depreciation in the period.	
Capital outlay/equipment	\$ 265,288
Depreciation expense	(156,355) 108,933
Proceeds from sales of bonds, swaps and capital leases are reported in the governmental funds as a source of financing, whereas they are recorded as long-term liabilities in the Statement of Net Assets	
	(408,648)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities	
	49,049
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental fund because interest is recorded as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest cost is recognized as the interest accrues, regardless of when it is due	
	(53,221)
Government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities	
	2,516
Since some property taxes and grants will not be collected for several months after the CPS' fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead recorded as deferred revenues. They are, however, recorded as revenues in the Statement of Activities	
Property taxes	50,208
Grants	51,625
In the Statement of Activities liabilities and other claims, legal settlements, sick pay, vacation pay, workers' compensation, general and automobile insurance, net pension obligation and other postemployment benefits are measured by the amount accrued during the year. In the governmental funds, expenditures for these items are measured by the amount actually paid.	
Liabilities and other claims	(2,900)
Legal settlements	1,800
Sick pay	2,268
Vacation pay	3,813
Workers' compensation	(3,228)
General and automobile liability	713
Net pension obligation	(256,877)
Other postemployment benefits	(213,316)
In the Statement of Activities, only gains on the disposal of capital assets are reported, whereas in the government funds, the entire proceeds are recorded	
	(20)
Change in Net Assets	<u><u>\$(358,803)</u></u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES BY OBJECT
OTHER FINANCING SOURCES AND NET CHANGES IN FUND BALANCES
FINAL APPROPRIATIONS VS ACTUAL — GENERAL OPERATING FUND
For the Fiscal Year Ended June 30, 2006
(Thousands of Dollars)

	<u>Approved Budget</u>	<u>Transfers In/(Out)</u>	<u>Final Appropriations</u>	<u>Fiscal Year Actual</u>	<u>Variance</u>
REVENUES:					
Property taxes	\$1,626,968	\$ —	\$1,626,968	\$1,666,118	\$ 39,150
Replacement taxes	82,051	—	82,051	131,639	49,588
State aid	1,506,997	—	1,506,997	1,492,361	(14,636)
Federal aid	838,018	—	838,018	757,731	(80,287)
Interest and investment income	16,500	—	16,500	36,874	20,374
Other	86,466	—	86,466	101,129	14,663
Total Revenues	<u>\$4,157,000</u>	<u>\$ —</u>	<u>\$4,157,000</u>	<u>\$4,185,852</u>	<u>\$ 28,852</u>
EXPENDITURES:					
Salaries —					
Teachers	\$1,932,144	\$ (13,298)	\$1,918,846	\$1,916,378	\$ 2,468
Career services	530,449	29,782	560,231	537,346	22,885
Commodities —					
Energy	67,582	4,484	72,066	70,760	1,306
Food	91,607	538	92,145	85,815	6,330
Textbooks	58,326	29,057	87,383	71,942	15,441
Supplies	30,089	23,512	53,601	46,965	6,636
Other	—	1,443	1,443	1,135	308
Services —					
Professional fees	261,666	168,014	429,680	438,349	(8,669)
Transportation	85,432	7,120	92,552	92,589	(37)
Tuition	176,254	(99,623)	76,631	62,890	13,741
Telephone and telecommunications	3,820	990	4,810	16,944	(12,134)
Other	3,877	12,914	16,791	13,104	3,687
Equipment — Educational	18,431	22,441	40,872	38,335	2,537
Building and sites —					
Repairs and replacements	35,984	2,607	38,591	35,556	3,035
Capital outlay	—	8	8	4	4
Fixed charges —					
Teachers' pension	235,586	2,962	238,548	247,585	(9,037)
Career service pension	81,966	2,581	84,547	87,530	(2,983)
Hospitalization and dental insurance	274,637	4,323	278,960	243,003	35,957
Medicare	24,331	2,265	26,596	29,989	(3,393)
Unemployment compensation	8,863	6,498	15,361	6,382	8,979
Workers compensation	18,013	13,054	31,067	21,004	10,063
Rent	10,847	1,194	12,041	14,174	(2,133)
Debt service	1,420	—	1,420	1,420	—
Other	255,676	(222,866)	32,810	5,894	26,916
Total Expenditures	<u>\$4,207,000</u>	<u>\$ —</u>	<u>\$4,207,000</u>	<u>\$4,085,093</u>	<u>\$121,907</u>
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES	<u>\$ (50,000)</u>	<u>\$ —</u>	<u>\$ (50,000)</u>	<u>\$ 100,759</u>	<u>\$150,759</u>
OTHER FINANCING SOURCES					
Capital leases	\$ 3,700	\$ —	\$ 3,700	\$ 3,700	\$ —
Transfers in	445	—	445	445	—
Total other financing sources	<u>\$ 4,145</u>	<u>\$ —</u>	<u>\$ 4,145</u>	<u>\$ 4,145</u>	<u>\$ —</u>
NET CHANGE IN FUND BALANCE	<u>\$ (45,855)</u>	<u>\$ —</u>	<u>\$ (45,855)</u>	<u>\$ 104,904</u>	<u>\$150,759</u>
Fund Balances, beginning of period	390,993	—	390,993	390,993	—
Fund Balances, end of period	<u>\$ 345,138</u>	<u>\$ —</u>	<u>\$ 345,138</u>	<u>\$ 495,897</u>	<u>\$150,759</u>

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

New Accounting Standards

During fiscal year 2006, CPS adopted the following GASB Statements:

- GASBS 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Please refer to Note 12, Pensions and Other Postemployment Benefits for required disclosures.
- GASBS 46, *Net Assets Restricted by Enabling Legislation*. Please refer to Note 14, Fund Balance Reservations And Net Asset Restrictions for required disclosures.
- GASBS 47, *Accounting for Termination Benefits*, which had no impact on the current year financial statements.

Description of Government-Wide Financial Statements

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 30 days of fiscal year end. This represents a change from previous fiscal years with the difference determined to be immaterial. For this purpose, the CPS considers State aid, Federal aid and replacement tax revenues that are susceptible to accrual to be available if they are collected within 90 days of fiscal year end. Due to delays in scheduled payments, CPS deferred an additional \$14 million of State Aid revenue as the payment date fell outside the 90-day recognition threshold. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Funds

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of funds is maintained, consistent with legal and managerial requirements. A description of the activities of the various funds is provided below.

Governmental Funds

a. General Operating Fund

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

- Educational Program
- Supplementary General State Aid Program
- School Food Service Program
- Improving America's Schools Act Program
- Education of the Handicapped Program
- Workers' and Unemployment Compensation/Tort Immunity Program
- Public Building Commission Operations and Maintenance Program
- Other Government-Funded Programs

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

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

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

c. Debt Service Fund

The Debt Service Fund includes the following programs:

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

Restricted Assets

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

Receivables and Payables

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

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. Calendar year 2005 property taxes were levied for fiscal year 2006 in December 2005, and were billed in fiscal year 2006. In 2006, the installment due dates were March 1 and September 1. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. The treasurers of Cook and DuPage counties, who distribute such receipts to the CPS, receive collections of property tax installments. The CPS' property tax becomes a lien on real property on January 1 of the year for which it is levied. The levy becomes an enforceable lien against the property as of January 1 of the levy year. CPS does not record a receivable nor related deferred revenue until the Board passes the levy for the current fiscal year.

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

Capital Assets

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

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

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

Beginning in fiscal year 2005, CPS implemented procedures related to impaired assets. Generally, a capital asset is considered impaired when its service utility has declined significantly and the events or changes in the circumstances are unexpected or outside the normal life cycle.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Depreciation of buildings and building improvements placed in service prior to fiscal year 2002 was calculated using a composite rate that CPS estimated to be 32 years. For items placed in service subsequent to fiscal year 2001, CPS utilizes the estimated useful lives for specific components within the range noted above.

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

Vacation and Sick Pay

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

Long-term Obligations

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

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

Fund Balances and Equity

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

The Statement of Net Assets include the following:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Comparative Data

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

Management's Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

In July 2005, the Board adopted a balanced budget for fiscal year 2006 that reflected total resources, including \$50 million of available reserved fund balances, and appropriations of \$4.21 billion for the General Operating Fund.

In June 2006, the Board adopted a balanced budget for fiscal year 2007 that reflected total resources, including \$105 million of available reserved fund balances, and appropriations of \$4.41 billion for the General Operating Fund.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

The Capital Projects Fund is budgeted on a project-by-project basis. Budgeted amounts in the Capital Projects Fund represent the entire project budget for projects that were expected to commence in fiscal year 2006. Actual expenditures in the Capital Projects Fund include expenditures on projects that were budgeted in the current and prior fiscal years.

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE

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

The CPS’ extensions are limited to the prior year EAV multiplied by the current year maximum legal rate limit. In addition, the growth in property tax extensions of the CPS is limited to the lesser of 5% or the percentage increase in the consumer price index for all urban consumers during the calendar year preceding the tax levy year. Extensions can be increased above this limitation due to the following increases: assessed valuation attributable to new construction, referendum approval, or rate limitation.

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

Legal limitations on tax rates and the rates extended in calendar years 2006 and 2005 are shown below.

		Tax Rates	
	Maximum 2006 Legal Limit	Extended Per \$100 of EAV	
		2006	2005
General Operating Fund:			
Educational	(A)	\$2.142	\$2.301
Workers' and Unemployment Compensation/Tort Immunity	(B)	.228	.131
Public Building Commission Operation and Maintenance	(B)	.565	.576
Public Building Commission Lease Program	(B)	.090	.096
		<u>\$3.025</u>	<u>\$3.104</u>

- A. The 2006 Educational tax rate is limited to the sum of \$2.936 per \$100 of EAV plus the difference (the “difference tax”) between \$.50 per \$100 of EAV and the rate of taxes extended for the School Finance Authority.
- B. These tax rates are not limited by law, but are subject to the limits described previously.

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

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

	<u>Fund Financial Statements</u>	<u>Government Wide- Financial Statements</u>
Revenues:		
General State Aid Unrestricted	\$ 717,672	\$ 734,039
Supplementary General State Aid	261,000	261,000
General Education Block Grant	138,240	138,240
Educational Services Block Grant	369,040	396,778
Other Restricted State Revenue	116,683	116,559
Total State Aid	<u>\$1,602,635</u>	<u>\$1,646,616</u>
Program Revenues:		
Operating Grants and Contributions		(114,447)
Non-Program General State Aid		<u>\$1,532,169</u>

NOTE 4. CASH DEPOSITS AND INVESTMENTS

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

Cash

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

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

As of June 30, 2006, the book amount of the CPS' deposit accounts was \$22.4 million. The bank balances totaled \$59.7 million as of June 30, 2006. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2006. The bank balance was covered by Federal depository insurance and by collateral held by third-party custodians.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

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

Investments

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

The CPS' Investment Policy contains the following stated objectives:

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

At June 30, 2006, the CPS had the following investments (\$000's) and maturities:

Investment Type	Carrying Amount	Maturities Less Than 1 Year	Maturities 1-5 Years
Repurchase Agreements	\$ 125,916	\$ 125,916	\$ —
U.S. Government Agency Securities	909,517	798,105	111,412
Commercial Paper	189,308	189,308	—
Money Market Mutual Funds	495,096	495,096	—
Total Investments	<u>\$1,719,837</u>	<u>\$1,608,425</u>	<u>\$111,412</u>
Cash	22,382		
Total Cash and Investments	<u>\$1,742,219</u>		

Credit Risk — State law and the CPS' Investment Policy limits investment in repurchase agreements, unless registered or inscribed in the name of the Board, to those purchased through banks or trust companies authorized to do business in the State of Illinois. State law and the CPS' Investment Policy limits investment in commercial paper to the top two ratings issued by at least two standard rating services. As of June 30, 2006, Moody's Investment Service rated the CPS' investments in commercial paper A1+ or A1 by Standard and Poor's, and P-1. As of June 30, 2006, Standard and Poor's rated the CPS' investments in money market mutual funds AAAM as required by the CPS' Investment Policy.

Custodial Risk — During the fiscal year ended June 30, 2006, repurchase agreements were supported by collateral with an aggregate market value equal to at least 102% of amounts invested. The collateral consisted of securities that were permissible under the CPS Investment Policy. Third-party custodians held all collateral in CPS' name.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

The following table provides a summary of CPS' total cash and investments as of June 30, 2006 (\$000's):

Fund:	Amount
General Operating Fund	\$ 819,647
Capital Projects Fund	581,305
Debt Service Fund	341,267
Total Cash and Investments	<u>\$1,742,219</u>

NOTE 5. RECEIVABLES

Receivables as of June 30, 2006 for the CPS, net of the applicable allowance for uncollectible accounts, are as follows (\$000's):

	Fund Financial Statements	Government- Wide Financial Statements
Property taxes	\$ 989,307	\$ 989,307
Replacement taxes	32,341	32,341
State aid	342,236	342,236
Federal aid	178,169	178,169
Other	35,476	35,476
Total Receivables	<u>\$1,577,529</u>	<u>\$1,577,529</u>
Less: Allowance for uncollectibles — property tax	(62,792)	(62,792)
Less: Allowance for uncollectibles — state aid	(3,841)	(3,841)
Total Receivables, net	<u>\$1,510,896</u>	<u>\$1,510,896</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 2006, the components of deferred revenue reported in the fund financial statements are as follows (\$000's):

Deferred property taxes	\$ 916,424
Other deferred revenue	258,580
Total Deferred Revenue	<u>\$1,175,004</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows (\$000's):

Government-wide activities:	Beginning Balance	Increases	Decreases and Transfers to In-service	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 231,388	\$ 12,780	\$ (20)	\$ 244,148
Construction in progress	<u>483,742</u>	<u>128,847</u>	<u>(244,856)</u>	<u>367,733</u>
Total capital assets not being depreciated	<u>\$ 715,130</u>	<u>\$ 141,627</u>	<u>\$(244,876)</u>	<u>\$ 611,881</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 5,481,109	\$ 344,585	\$ (8,506)	\$ 5,817,188
Equipment and administrative software...	<u>100,380</u>	<u>22,304</u>	<u>(60)</u>	<u>122,624</u>
Total capital assets being depreciated	<u>\$ 5,581,489</u>	<u>\$ 366,889</u>	<u>\$ (8,566)</u>	<u>\$ 5,939,812</u>
Total Capital Assets	<u>\$ 6,296,619</u>	<u>\$ 508,516</u>	<u>\$(253,442)</u>	<u>\$ 6,551,693</u>
Less accumulated depreciation for:				
Buildings and improvements	\$(1,987,489)	\$(151,009)	\$ 8,506	\$(2,129,992)
Equipment and administrative software...	<u>(32,692)</u>	<u>(5,346)</u>	<u>60</u>	<u>(37,978)</u>
Total accumulated depreciation	<u>\$(2,020,181)</u>	<u>\$(156,355)</u>	<u>\$ 8,566</u>	<u>\$(2,167,970)</u>
Capital Assets, net of depreciation ..	<u>\$ 4,276,438</u>	<u>\$ 352,161</u>	<u>\$(244,876)</u>	<u>\$ 4,383,723</u>

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

Governmental activities:	
Instruction	\$100,787
Pupil support services	13,258
Administrative support services	6,192
Facility support services	14,176
Instructional support services	15,083
Food services	<u>6,859</u>
Total Depreciation	<u>\$156,355</u>

Construction Commitments

The CPS had active construction projects as of June 30, 2006. These projects include new construction and renovations of schools. At year-end, the CPS had approximately \$221 million in outstanding construction encumbrances.

NOTE 7. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

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

General Operating Fund:	
Due from Capital Improvement Program	\$ 69,872
Due to Capital Asset Program	(7,750)
Due to Bond Redemption and Interest Program	<u>(20,406)</u>
Net due from other Funds	<u>\$ 41,716</u>
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	\$ 7,750
Capital Improvement Program — Due to General Operating Fund	<u>(69,872)</u>
Net due to other Funds	<u>\$(62,122)</u>
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund	<u>\$ 20,406</u>

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

Transfers

Effective June 30, 2006, CPS made operating transfers of \$2.8 million from the Capital Improvement Program to the Bond Redemption and Interest Program in order to provide additional debt service resources and to transfer \$445,000 of interest earnings and other operating transfers from the Public Building Commission Leases Program to the General Operating Fund.

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

The CPS issued the following bonds in fiscal year 2006:

Unlimited Tax General Obligation Bonds (Series 2005C)

In November 2005, CPS issued \$53,750,000 in Unlimited Tax General Obligation Bonds (Series 2005C) at a premium of \$4,124,158. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, to pay capitalized interest, and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of \$54,261,685 in the Capital Improvement Fund.

Unlimited Tax General Obligation Bonds (Series 2005DE)

In December 2005, CPS issued \$325,000,000 in Unlimited Tax General Obligation Bonds (Series 2005DE). The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of \$323,793,169 in the Capital Improvement Fund.

Unlimited Tax General Obligation Bonds (Series 2006A)

In June 2006, CPS issued \$6,852,800 in Unlimited Tax General Obligation Bonds (Series 2006A) at a discount of \$325,508. The proceeds from these bonds are being used as part of the Capital Improvement Program and to pay costs of issuance of the bonds. As a result of the issuance, CPS recorded net proceeds of \$6,385,392.

NOTE 8. LONG-TERM DEBT (continued)

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

Series	Principal Outstanding June 30, 2005	Issuances	Retirements	Principal Outstanding June 30, 2006	Accreted Interest	Principal and Accreted Interest June 30, 2006
2006A	\$ —	\$ 6,853	\$ —	\$ 6,853	\$ —	\$ 6,853
2005DE	—	325,000	—	325,000	—	325,000
2005C	—	53,750	—	53,750	—	53,750
2005B	52,595	—	—	52,595	—	52,595
2005A	193,585	—	—	193,585	—	193,585
2004H	18,500	—	—	18,500	—	18,500
2004G	12,500	—	—	12,500	—	12,500
2004F	25,000	—	—	25,000	—	25,000
2004E	44,730	—	(3,640)	41,090	—	41,090
2004D	53,030	—	—	53,030	—	53,030
2004C-2	48,910	—	—	48,910	—	48,910
2004C-1	75,410	—	—	75,410	—	75,410
2004B	298,075	—	—	298,075	—	298,075
2004A	205,410	—	—	205,410	—	205,410
2003D	254,000	—	(4,125)	249,875	—	249,875
2003C	4,585	—	—	4,585	—	4,585
2003B	183,775	—	—	183,775	—	183,775
2003A	71,165	—	(4,935)	66,230	—	66,230
2002A	48,970	—	(580)	48,390	—	48,390
2001C	35,735	—	(3,740)	31,995	—	31,995
2001B	9,440	—	—	9,440	—	9,440
2001A	7,170	—	(770)	6,400	—	6,400
2000E	13,390	—	—	13,390	—	13,390
2000B,C,D	303,000	—	—	303,000	—	303,000
2000A	16,525	—	—	16,525	—	16,525
IDFA 1999A	12,000	—	—	12,000	—	12,000
1999A	532,554	—	—	532,554	132,685	665,239
1998B-1	328,714	—	—	328,714	155,273	483,987
1998	14,000	—	—	14,000	—	14,000
1997A	499,995	—	—	499,995	22,094	522,089
1997	89,645	—	(8,945)	80,700	—	80,700
1996	58,560	—	(2,880)	55,680	—	55,680
Total Bonds	\$3,510,968	\$385,603	\$(29,615)	\$3,866,956	\$310,052	\$4,177,008
Note Payable	5,500	—	(902)	4,598	—	4,598
Asbestos Abatement	7,574	—	(1,420)	6,154	—	6,154
Total Long-Term Debt	<u>\$3,524,042</u>	<u>\$385,603</u>	<u>\$(31,937)</u>	<u>\$3,877,708</u>	<u>\$310,052</u>	<u>\$4,187,760</u>
Less Current Portion						(32,253)
Deferred Amounts:						
On Refunding						(79,281)
For Net Premium/(Discount)						68,731
Total Long-term Debt, net of Refunding, Current Portion and Premium/(Discount)						<u>\$4,144,957</u>

NOTE 8. LONG-TERM DEBT (continued)

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

Bonds	\$(33,655)
Note Payable	(992)
Asbestos Abatement Loans	(1,269)
Refunding	3,663
Subtotal	\$(32,253)
Lease obligations	(22,670)
Total Current Portion	<u>\$(54,923)</u>

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

Defeased Debt

Defeased bonds have been removed from the Statement of Net Assets because related assets have been placed in irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at June 30, 2006 are as follows (\$000's):

<u>Description</u>	<u>Amount Defeased</u>	<u>Amount Outstanding</u>
Unlimited Tax General Obligation Bonds Series 2001C	\$174,575	\$174,575
Unlimited Tax General Obligation Bonds Series 2001A	35,810	35,810
Unlimited Tax General Obligation Bonds Series 2000A	90,435	90,435
Unlimited Tax General Obligation Bonds Series 1997	370,995	370,995
Unlimited Tax General Obligation Bonds Series 1996	281,280	281,280
Total	<u>\$953,095</u>	<u>\$953,095</u>

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

NOTE 8. LONG-TERM DEBT (continued)

Fiscal Year(s)	Variable Rate Bonds					
	Fixed Rate Bonds		Interest Rate Swaps, Net**			Total
	Principal	Interest	Principal	Interest*		
2007	\$ 19,875	\$ 82,591	\$ 13,780	\$ 56,788	\$ (1,075)	\$ 171,959
2008	25,124	81,988	14,415	56,170	(1,071)	176,626
2009	30,000	81,230	15,145	55,471	(1,066)	180,780
2010	81,257	104,619	19,490	54,708	(1,062)	259,012
2011	82,487	104,575	21,135	53,735	(1,056)	260,876
2012-2016	469,394	508,627	124,600	253,238	(5,202)	1,350,657
2017-2021	535,061	477,074	218,485	256,341	(4,898)	1,482,063
2022-2026	533,224	482,168	394,685	223,093	(4,003)	1,629,167
2027-2031	458,423	567,582	512,010	146,859	(1,696)	1,683,178
2032-2036	53,946	173,104	244,420	55,853	(183)	527,140
Total	\$2,288,791	\$2,663,558	\$1,578,165	\$1,212,256	\$(21,312)	\$7,721,458

* Interest on Series 2000B,C,D variable rate demand notes was calculated at an assumed rate of 6% per annum and interest on Series 2003D unhedged auction rate bonds was calculated at an assumed rate of 5% per annum (equals annual debt service deposit requirement). Interest on Series 2004CDE variable rate demand notes calculated at an assumed rate of 4.5% per annum. Interest on auction rate securities assumes current interest rates remain the same as of June 30, 2006 and was calculated as follows:

Series 2003B — 3.567%
Series 2003D — 3.811%
Series 2004B — 3.699%
Series 2005DE — 4.021%

** Series 2003B computed: (3.782% – 3.970%) x Outstanding Principal
Series 2003D computed: (3.771% – 3.734066%) x Outstanding Principal
Series 2004B computed: (3.5439% – 3.734066%) x Outstanding Principal
Series 2004B computed: (3.5439% – 3.734066%) x Outstanding Principal

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

Series	Accreted Interest June 30, 2005	Increase	Accreted Interest June 30, 2006	Total Accretable Interest	Remaining Accretable Interest
1997A	\$ 18,968	\$ 3,126	\$ 22,094	\$ 53,485	\$ 31,391
1998B-1	131,478	23,795	155,273	816,756	661,483
1999A	111,643	21,042	132,685	617,287	484,602
	<u>\$262,089</u>	<u>\$47,963</u>	<u>\$310,052</u>	<u>\$1,487,528</u>	<u>\$1,177,476</u>

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

NOTE 9. CAPITALIZED LEASES

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

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

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

The future PBC lease rentals and other capitalized leases due at June 30, 2006, are as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>PBC Lease Rentals</u>	<u>Other</u>	<u>Total</u>
2007	\$ 51,766	\$ 424	\$ 52,190
2008	51,800	424	52,224
2009	51,838	424	52,262
2010	51,830	424	52,254
2011	51,874	424	52,298
2012-2016	259,896	2,118	262,014
2017-2020	186,823	1,993	188,816
Total Rentals	\$ 705,827	\$ 6,231	\$ 712,058
Less — Interest and other costs	(247,797)	(3,256)	(251,053)
Principal amount of rental due	<u>\$ 458,030</u>	<u>\$ 2,975</u>	<u>\$ 461,005</u>

Following is a summary of changes in PBC Leases and Capitalized Lease outstanding (\$000's):

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
PBC Leases	\$476,044	\$ —	\$ (18,014)	\$458,030
Capitalized leases	—	3,700	(725)	2,975
	<u>\$476,044</u>	<u>\$3,700</u>	<u>\$ (18,739)</u>	<u>\$461,005</u>
Less: Current Portion PBC Leases				(22,495)
Current Portion Capitalized Lease				(175)
Total Leases Outstanding				<u>\$438,335</u>

Operating Leases

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

NOTE 9. CAPITALIZED LEASES (continued)

Total expenditures for operating leases for the fiscal year ending June 30, 2006 were \$3.3 million. Following is a summary of operating lease commitments as of June 30, 2006 (000's):

<u>Fiscal Year(s)</u>	<u>Total</u>
2007	\$ 4,080
2008	3,793
2009	3,546
2010	1,769
2011	123
Total Operating Lease Commitments	<u>\$13,311</u>

NOTE 10. DERIVATIVE INSTRUMENTS**Interest Rate Swaps****Series 2003B**

Swap Objective. CPS entered into two interest rate swaps associated with the issuance of the Series 2003B bonds in February 2003 as a means of lowering its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of entering into the swaps was to effectively change the variable interest rate on the auction rate bonds to a fixed interest rate of 3.782%.

Swap terms. The bonds and the related swap agreements mature on March 1, 2033, and the total notional amount of the swaps equals the \$183,775,000 of Series 2003B variable auction rate bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays each counterparty a fixed payment of 3.782% and receives a variable payment computed at the Bond Market Association Municipal Swap Index™ (BMA) until March 1, 2007, then computed as 70% of the London Interbank Offered Rate (LIBOR) from March 1, 2007 through March 1, 2033.

Fair value. As of June 30, 2006, the swaps have a positive fair value as a result of long term interest rates rising since the execution of the swap. Because the coupons on CPS's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was determined by market prices quoted by each counterparty as of June 30, 2006 (see table below).

Credit risk. As of June 30, 2006, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps becomes negative, CPS would not be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2006

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Goldman Sachs	\$110,265,000	A1	A+; stable	\$2,597,330
Bank of America	73,510,000	Aa2	AA-; stable	1,699,973
Total	<u>\$183,775,000</u>			<u>\$4,297,303</u>

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Basis risk. The swaps expose CPS to basis risk should the rate paid on the auction rate securities increase to more than the BMA rate received through March 1, 2007. The swaps also expose CPS to basis risk should the relationship between LIBOR and BMA converge and the rate paid on the auction rate securities increases to more than the 70% of LIBOR rate received after March 1, 2007. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.782% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2006, the weighted average auction rate was 3.567% and the BMA rate was 3.97%. As of June 30, 2006 the BMA rate was 3.97%, whereas 70% of LIBOR was 3.734%. To mitigate the potential for basis risk, CPS funded a reserve to provide for potential basis differential (annual debt service fund deposit is calculated at a rate of 3.902%, and \$3,000,000 was placed in reserve).

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2003B bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2003D

Swap Objective. CPS entered into two interest rate swaps associated with the issuance of the Series 2003D bonds in December 2003 as a means of lowering its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of entering into the swaps was to effectively change the variable interest rate on the certain of the auction rate bonds to a fixed interest rate of 3.771%.

Swap terms. The bonds and the related swap agreements mature on March 1, 2034, and the total notional amount of the swaps equals the \$185,350,000 of Series 2003D variable auction rate bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays each counterparty a fixed payment of 3.771% and receives a variable payment computed at the 70% of the London Interbank Offered Rate (LIBOR) through March 1, 2034.

Fair value. As of June 30, 2006, the swaps have a positive fair value as a result of long term interest rates rising since the execution of the swap. Because the coupons on CPS's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was determined by market prices quoted by each counterparty as of June 30, 2006 (see table below).

Credit risk. As of June 30, 2006, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps becomes negative, CPS would not be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A-"/"A3", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)**Swap Counterparty Data as of June 30, 2006**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Lehman Brothers	\$ 95,350,000	A1	A+; stable	\$2,437,195
Goldman Sachs	90,000,000	A1	A+; stable	2,338,225
Total	<u>\$185,350,000</u>			<u>\$4,775,420</u>

Basis risk. The swaps expose CPS to basis risk should the rate paid on the auction rate securities be higher than the 70% of LIBOR rate received from the swap counterparties. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.771% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2006, the weighted average auction rate was 3.811% and 70% of LIBOR was 3.734%. To mitigate the potential for basis risk, CPS funded a reserve of \$3,000,000 upon closing the bonds to provide for potential basis differential, and annual debt service fund deposit is calculated at a rate of 3.891%.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2003D bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2004B

Swap Objective. CPS entered into three interest rate swaps associated with the issuance of the Series 2004B bonds in April 2004 as a means of lowering its borrowing costs when compared against fixed-rate bonds at the time of issuance. The intention of entering into the swaps was to effectively change the variable interest rate on the auction rate bonds to a fixed interest rate of 3.5439%.

Swap terms. The bonds and the related swap agreements mature on March 1, 2032, and the total notional amount of the swaps matches the \$298,075,000 of Series 2004B variable auction rate bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under two of the swap agreements, CPS pays each counterparty a fixed payment of 3.5439% and receives a variable payment computed at 70% of the London Interbank Offered Rate (LIBOR) through March 1, 2032. Under the third swap agreement, which allows CPS to better hedge against the associated variable rate debt, CPS receives either a lower percentage of LIBOR in a high interest rate environment, or a higher percentage of LIBOR in a low interest rate environment, based on the following scale:

<u>LIBOR</u>	<u>Percentage of LIBOR</u>
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%

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Fair value. As of June 30, 2006, the swaps have a positive fair value as a result of long term interest rates rising since the execution of the swap. Because the coupons on CPS's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was determined by market prices quoted by each counterparty as of June 30, 2006 (see table below).

Credit risk. As of June 30, 2006, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps becomes negative, CPS would not be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2006

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Goldman Sachs	\$178,845,000	A1	A+; stable	\$ 9,394,229
Bear Stearns	119,230,000	Aaa	AAA; stable	6,248,679
Bear Stearns	298,075,000	Aaa	AAA; stable	(4,899,815)
Total	<u>\$596,150,000</u>			<u>\$10,743,093</u>

Basis risk. The swaps expose CPS to basis risk should the rate paid on the auction rate securities be higher than the rates received from the swap counterparties. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.5439% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2006, the weighted average auction rate was 3.699% and the 70% of LIBOR rate was 3.734%. Under the third swap agreement, the total rate received by the swap counterparty was 70% of LIBOR. To additionally mitigate the potential for basis risk, CPS's annual debt service fund deposit is calculated at a rate of 3.6639%.

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

Series 1997A

Swaption Objective. In August 2005 CPS sold an option to Bank of America N.A. under which CPS may be caused to enter into an interest rate swap associated with \$100,000,000 of the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007) as a means of monetizing the call option of these bonds in a low interest rate environment. The intention of entering into the swap was to effectively economically refund \$100,000,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing an upfront payment of \$18,345,000 to be used for costs of issuance and for debt service requirements in fiscal year 2006.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Swaption terms. Upon exercise of the option, CPS will issue variable rate bonds to currently refund \$100,000,000 of the Series 1997A bonds, and the interest rate swap will become effective under which CPS will pay the counterparty a fixed payment of 5.25% (the current fixed rate of the outstanding Series 1997A bonds) and will receive a variable payment computed at 70% of LIBOR.

Fair value. Because CPS received an upfront payment the swaption has a negative fair value in the amount of the upfront payment until option exercise date in July 2007. However, because interest rates have increased since execution of the swap, the swap also has a positive fair value component as of June 30, 2006 as determined by market prices quoted by the counterparty. The net fair value of the swaption was negative \$10,900,189 as of June 30, 2006.

Credit risk. As of June 30, 2006, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Basis risk. Upon exercise, the swap will expose CPS to basis risk should the rate paid on the variable rate refunding bonds be more than the 70% of LIBOR rate received by the counterparty. Should any adverse basis differential occur once the swap contract becomes effective, the rate paid on the bonds will be higher than the 5.25% synthetic rate, and therefore the expected refunding savings may not be fully realized.

Termination risk. CPS or the counterparties may terminate the swaption if the other party fails to perform under the terms of the contract. The swaption may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A—" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaption may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaption is terminated prior to the option exercise date, and at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value. If the swap is terminated after the option is exercised, the Series 2007 refunding bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2005A

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

Swap terms. The bonds and the related swap agreements mature on December 1, 2031, and the total notional amount of the swaps equals the \$193,585,000 of Series 2005A fixed rate bonds. Starting in fiscal year 2014, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays one counterparty a variable payment computed at the Bond Market Association (BMA) rate and receives a variable payment computed at 70% of the London Interbank Offered Rate (LIBOR) plus 52.4 basis points. For the second swap, CPS pays the

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

counterparty a variable payment computed at the BMA rate and receives a variable payment computed at 80.764% of LIBOR.

Fair value. As of June 30, 2006, the swaps have a positive fair value as a result of long term interest rates rising since the execution of the swap. The fair value was determined by market prices quoted by each counterparty as of June 30, 2006 (see table below).

Credit risk. As of June 30, 2006, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps becomes negative, CPS would not be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2006

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Loop Financial	\$116,151,000	A2	A; stable	\$1,531,939
Merrill Lynch	77,434,000	Aa3	A+; stable	1,832,975
Total	<u>\$193,585,000</u>			<u>\$3,364,914</u>

Basis risk. The swaps expose CPS to basis risk should the relationship between LIBOR and BMA converge. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the stated coupon on the bonds, and therefore the expected cost savings may not be realized. As of June 30, 2006, the BMA rate was 3.97%. As of June 30, 2006, the rate received by one counterparty was 4.258% (70% of LIBOR + 52.4 basis points) and was 4.308% from the other (80.764% of LIBOR), effectively lowering the stated coupon on the bonds by a weighted average of 30.8 basis points.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2003B bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2005DE

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

Swap terms. The bonds and the related swap agreement mature on March 1, 2036, and the total notional amount of the swaps equals the \$287,055,000 of Series 2005DE variable rate bonds. Starting in fiscal year 2013, the notional value of the swap declines by the same amount of the associated

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

principal amortization. Under the swap, CPS pays the counterparty a fixed payment of 3.6617% and receives a variable payment computed at 70% of the London Interbank Offered Rate (LIBOR).

Fair value. As of June 30, 2006, the swap has a positive fair value as a result of long term interest rates rising since the execution of the swap. Because the coupons on CPS's variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was determined by market prices quoted by the counterparty as of June 30, 2006 (see table below).

Credit risk. As of June 30, 2006, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps becomes negative, CPS would not be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+"/"A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2006

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&P</u>	
Loop Financial	\$287,055,000	A2	A; stable	\$10,218,913

Basis risk. The swaps expose CPS to basis risk should the rate paid on the variable rate debt be higher than the 70% of LIBOR rate received from the swap counterparty. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.6617% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2006, the weighted average variable rate was 4.021% and 70% of LIBOR was 3.734%. To mitigate the potential for basis risk, CPS's annual debt service fund deposit is calculated at a rate of 3.7817%.

Termination risk. CPS or the counterparties may terminate the swaps if the other party fails to perform under the terms of the contract. The swaps may also be terminated by CPS if the counterparty's credit quality rating falls below designated rating levels from Standard & Poor's, Moody's Investors Service and/or Fitch ("A-" as issued by Standard & Poor's and Fitch or "A3" as issued by Moody's Investors Service). The swaps may also be terminated by the counterparty if CPS's credit quality rating by any two of Standard & Poor's, Moody's Investors Service and Fitch falls below "BBB" as issued by Standard & Poor's or Fitch and "Baa2" as issued by Moody's. If the swaps are terminated, the Series 2003B bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

NOTE 11. OTHER LONG-TERM LIABILITIES

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

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2006</u>
Accrued Sick Pay Benefits	\$248,079	\$54,580	\$(56,847)	\$245,812
Accrued Vacation Pay Benefits	48,239	2,540	(6,353)	44,426
Accrued Workers' Compensation Claims	66,279	15,736	(12,509)	69,506
Accrued General and Automobile Claims	5,052	—	(713)	4,339
Tort Liabilities and Other Claims	—	2,900	—	2,900
Total	<u>\$367,649</u>	<u>\$75,756</u>	<u>\$(76,422)</u>	<u>\$366,983</u>
Less: Current Portion of Accrued Sick Pay Benefits				(46,898)
Less: Current Portion of Accrued Vacation Pay Benefits				(6,267)
Less: Current Portion of Claims and Judgments				(1,500)
Total Other Long-term Liabilities				<u>\$312,318</u>

Sick Pay Benefits

The CPS provides sick pay benefits for substantially all of its employees. Eligible employees can accumulate a maximum of 315 days. If an employee either reaches age 65; is age 58 with between 20 and 33 years of service; has 34 years of service, or; dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. The CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

Vacation Pay Benefits

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

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

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

The CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of \$150,000,000 and Boiler & Machinery Insurance with limits of \$100,000,000 with the following deductibles:

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

During fiscal years 2006, 2005 and 2004 no settlements were made in excess of the self-insured amount and there has been no significant reduction in insurance coverage over the past three fiscal years.

The CPS maintains commercial excess liability insurance with limits of \$100,000,000 in excess of a \$10,000,000 self-insured retention per loss for claims arising from: General Liability; Automotive Liability; Employers Liability; and Wrongful Acts.

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

As discussed in Note 15, there are pending workers' compensation and tort claims involving the CPS which have arisen out of the ordinary conduct of business. The CPS budgets an amount each year in the Workers' and Unemployment Compensation/Tort Immunity Fund for the estimated claims, of which the expenditures are met through an annual tax levy.

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

The CPS is self-insured for workers' compensation claims and certain employee health insurance costs (reimbursed to a provider on a cost plus fees basis). A liability of \$49 million has been recorded for health insurance costs as a part of accrued payroll in the General Operating Fund, which includes \$26 million for estimated medical claims incurred but not reported as of June 30, 2006. Following is the activity related to medical claims for which the CPS is self-insured (\$000's):

<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>\$33,655</u>	<u>\$215,468</u>	<u>\$(204,098)</u>	<u>\$45,025</u>	<u>\$255,618</u>	<u>\$(251,631)</u>	<u>\$49,012</u>

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Pension

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

Article 17 of the Illinois Pension Code governs the retirement, survivor and disability benefits provided by the Pension Fund. Participation in the Pension Fund is mandatory for all members of the teaching force and employees of the Pension Fund. As of June 30, 2005, the most recent report, there were 37,521 active participants in the Pension Fund, substantially all of who were employees of the CPS.

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

Participating members contribute 9% of salary, allocated as follows: 7.5% for retirement pension, 0.5% for automatic annual increases and 1.0% for survivor's pension. In fiscal year 2006, as in previous fiscal years, the CPS paid a portion (7% — \$123.4 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. A portion of grant funds from the Federal government and General Operating Fund revenues provides the funding of the 7% portion. The remaining portion (2%) is withheld from teachers' salaries.

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

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Retirement benefit contribution:

A contribution from the State of Illinois	\$ 74,922
A contribution to increase funded ratio to 90%	26,350
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	8,860
Total contributions	<u>\$110,132</u>

For the fiscal year ended June 30, 2006, employee contributions are \$158.6 million which is 9% of covered payroll. Employer contributions for the year are \$83.8 million which is approximately 5% of covered payroll.

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

The governmental fund financial statements reflect expenditures on both a functional and budgetary account basis. Teachers' pension expenditures reflected on the budgetary account basis include both the CPS' employer share of pension expenditures of \$83.8 million and amounts incurred by the CPS for a portion of the required employees' pension contribution of \$153.2 million, which total \$237.0 million. For functional reporting purposes, all teachers' pension expenditures, except that portion funded by the State, are reflected in the same functional classifications as the teachers' salaries.

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

The CPS' annual pension cost for fiscal years 2006, 2005 and 2004 are as follows (\$000's):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual required contribution (ARC)	\$ 328,366	\$ 258,883	\$ 202,971
Interest on Net Pension Obligation (NPO)	100,492	83,200	71,580
Adjustment to annual required contribution	<u>(61,849)</u>	<u>(51,206)</u>	<u>(44,053)</u>
Annual Pension Cost (APC) for the fiscal year ended			
June 30, 2006	\$ 367,009	\$ 290,877	\$ 230,498
Less: Contributions made	<u>(110,132)</u>	<u>(74,729)</u>	<u>(85,253)</u>
Increase in NPO	\$ 256,877	\$ 216,148	\$ 145,245
Add NPO, beginning of year	<u>1,256,146</u>	<u>1,039,998</u>	<u>894,753</u>
NPO, end of year	<u>\$1,513,023</u>	<u>\$1,256,146</u>	<u>\$1,039,998</u>
Actuarial valuation date	June 30, 2005		
Actual cost method	Projected Unit Credit		
Amortization method	Level percent, open		
Remaining amortization period	40 years		
Asset valuation method	4 year smoothed market		
Actuarial assumptions:			
Investment rate of return	8%		
Projected salary increases	Average of 4.6% per year		
Inflation	3%		

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

At June 30, 2005, 2004 and 2003 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows (\$000's):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Actuarial value of assets	\$ 10,506,471	\$ 10,392,193	\$ 10,494,755
Less: Actuarial Accrued Liability (AAL)	(13,295,876)	(12,105,681)	(11,411,528)
AAL unfunded (liability)/surplus	<u>\$ (2,789,405)</u>	<u>\$ (1,713,488)</u>	<u>\$ (916,773)</u>
Funded ratio	79.0%	85.8%	92.0%
Covered payroll	\$ 1,968,612	\$ 1,767,631	\$ 1,706,205
Unfunded AAL as a percentage of covered payroll	70.6%	96.9%	53.7%
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual pension cost	\$ 367,009	\$ 290,877	\$ 230,498
Percentage of annual pension cost contributed	30.0%	25.7%	37.0%
Net Pension Obligation	\$1,513,023	\$1,256,146	\$1,039,998

In the opinion of the CPS' legal counsel, the unfunded actuarial liability of the Pension Fund is not a liability to be funded by the CPS; however, the CPS is required to provide funding in addition to amounts provided from Federal and State sources if the funded ratio drops below 90%. CPS contributed \$26.4 million in fiscal year 2006 to increase the funded ratio to 90% and will make an additional General Operating Fund appropriation of \$80.3 million for the fiscal year ended June 30, 2007.

During fiscal year 2006, approximately 307 teachers participated in CPS' early retirement incentive program. The accrued pension cost of \$10.6 million was recorded in the fund financial statements.

Other Personnel

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

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

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

Covered employees are required by Article 8, Chapter 40 of the Illinois Compiled Statutes to contribute a percentage of their salary (8.5%). In fiscal year 2006, as in previous fiscal years, the CPS agreed to pay a portion (7% — \$36 million) of the required employees' contribution for most employees. The CPS also receives a portion of the cost of providing pension benefits from grants by the Federal government for career service employees paid from certain Federally-funded programs. The amount reflected as career service pension expenditures in the accompanying governmental fund financial statements is \$87.5 million, \$36 million of this amount represents the required employees' contribution paid by the CPS on behalf of its employees, and \$49.5 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining \$2 million is funded under Federally-funded

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

programs. The portion funded by the City of Chicago and Federal Government is also reflected as revenue in the General Operating Fund.

Career service pension expense in the government-wide financial statements is \$87.5 million.

As of December 31, 2005, the date of the latest available report, the Annuity Fund had net assets of approximately \$6.36 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately \$2.9 billion. The CPS employs approximately 15,000 of the 33,743 active participants in the Annuity Fund. The CPS, in the opinion of its legal counsel, has no duty to contribute any sum to the Annuity Fund.

Other Postemployment Benefits (OPEB)

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

The Pension Fund administers a health insurance program that includes two external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Pension Fund, provided the Pension Fund is the recipient's final pension system prior to retirement. The purpose of this program is to help defray the retired member's premium cost for health insurance. The member is responsible for paying the cost of the insurance and may purchase insurance from the Pension Fund's providers or other outside providers. Each year, the Board of Trustees of the Pension Fund establishes a rebate percentage that is used to defray a portion of the cost of the insurance. The rebate percentage was 52% of the individual member's cost for the first month in fiscal year 2005 and 70% for the remaining eleven months in fiscal year 2005. The rebate percentage was 85% of the individual member's cost for the first nine months in fiscal year 2004 and 52% for the last three months in fiscal year 2004. In accordance with Illinois Compiled Statutes (ILCS) Article 40 Chapter 5 Article 17 Section 142.1, the total health insurance benefits provided in any one year may not exceed \$65 million plus any previous year amounts authorized but not yet expended. The statutory threshold, however, does not fall under the definition of a funding cap as set forth in GASBS 45. The Pension Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy.

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

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

The CPS' annual OPEB cost for fiscal year 2006 is as follows (\$000's):

Total actuarial valuation as of June 30, 2005	\$2,825,543
Total OPEB assets of the Teacher Pension Fund	89,763
Unfunded actuarial liability	<u>\$2,735,780</u>
Annual amount to amortize unfunded liability over 30 years	
As a level percent of payroll	\$ 106,758
Normal cost	<u>106,557</u>
Annual required contribution	\$ 213,315
Interest on net OPEB obligation	N/a
Adjustment to annual required contribution	<u>N/a</u>
Annual OPEB cost for the fiscal year ended June 30, 2006	\$ 213,316
Less: Contributions made	<u>—</u>
Net OPEB	<u>\$ 213,316</u>
Actuarial valuation date	June 30, 2005
Actual cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Actuarial assumptions:	
Discount rate	5%
Medical trend rate	12%
Inflation	3%

Other Personnel

Actuarial studies on other personnel determined that no OPEB liability exists for those employees as of June 30, 2006.

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY

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

The amount of Authority bonds outstanding at June 30, 2006, net of bonds advance refunded or defeased is \$187,985,000. The Authority's bonds are not a direct or contingent obligation of the CPS.

The principal amount of general obligation bonds of the Authority at June 30, 2006 is shown below:

<u>Fiscal Year(s)</u>	<u>Maturities</u>		
	<u>Principal and Sinking Fund Installments</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 60,190	\$10,242	\$ 70,432
2008	61,150	6,943	68,093
2009	66,645	3,605	70,250
Total	<u>\$187,985</u>	<u>\$20,790</u>	<u>\$208,775</u>

Interest rates on the above Authority bonds range from 5.0% to 6.25%.

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY (continued)

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

NOTE 14. FUND BALANCE RESERVATIONS AND NET ASSET RESTRICTIONS

a. Fund Balance Reservation

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

<u>Purpose</u>	<u>Reserved Amount</u>
Workers' Compensation/Tort Immunity	\$26,123
Supplementary General State Aid	35,546
Public Building Commission Operations and Maintenance	22,719
Total	<u>\$84,388</u>

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2006 Supplementary General State Aid allocation.

In its fiscal year 2006 budget, CPS appropriated in its General Operating Fund \$30.0 million of fund balances from amounts reserved for specific purposes and \$50.0 million of general fund balance.

In its fiscal year 2007 budget, CPS appropriated in its General Operating Fund \$30.0 million of fund balances from amounts reserved for specific purposes and \$75.0 million of general fund balance.

In its fiscal year 2006 budget, CPS designated \$190 million to provide working capital. In its fiscal year 2007 budget, CPS has designated \$218.4 million to provide working capital.

During fiscal year 2006, the Board reserved \$353.3 million for Debt Service of which \$314.9 million was allocated to the Bond Redemption and Interest Program and the remaining \$38.4 million was allocated to the Public Building Commission Leases Program.

b. Net Assets Restrictions

The government-wide statement of net assets reports \$443 million of restricted net assets, of which \$84.4 million is restricted by enabling legislation.

On the government-wide financial statements, Net Assets Restricted for Specific Purposes consists of the following (000's):

<u>Purpose</u>	<u>Restricted Amount</u>
Restricted Donations	\$ 1,503
Specific Purposes	84,388
Total	<u>\$85,891</u>

NOTE 15. LITIGATION AND CONTINGENCIES

a. Teacher Tenure

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, 2002, 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 here, (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 related to the factual issues relating to the employment record of one of the Plaintiffs.

On September 17, 2002, the CPS filed a Petition for Rehearing challenging the Appellate Court's ruling on the delegation issue, which was denied on December 20, 2002. The Board intends to continue to litigate this matter vigorously and will now ask the Illinois Supreme Court to review the delegation issue.

On November 21, 2002, the Supreme Court reversed the judgment of the Appellate Court holding that the Board had the statutory authority to delegate its power to make layoffs, but affirmed the Appellate Court's order remanding the case to the Circuit Court for further fact finding regarding the specific process which led to the layoffs at issue. Specifically, the Supreme Court indicated that the Board could not delegate its layoff power to principals (as opposed to central office administrators) and, accordingly, found that fact finding regarding the mechanics of the layoff process was necessary.

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 not possible 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, 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 decision 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.

On May 11, 2006, the Court granted the Board's motion for summary judgment. Plaintiffs have appealed to the Illinois Appellate Court. The appeal is pending.

b. State and Federal Aid Receipts

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management and legal counsel, any potential adjustments to the Federal or State aid recorded by CPS through June 30, 2006, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2006.

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

c. Asbestos and Lead Abatement

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

d. Wrongful Death 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 with other eighth grade students from the 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 swimming pool; failing to follow Board policies regarding school trips, and; failing to protect Derrick from the dangerous water conditions at the Quality Inn Hotel. A finding of liability on the part of CPS cannot be predicted as either probable or remote at this juncture.

e. 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, thirty percent (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 the audit opinion.

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 employees who elect the ERO. While it is not possible to know with any certainty the number of employees who elects 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 million. The Board is unable to predict the outcome of this dispute at the present time.

f. Other Litigation and Claims

There are numerous other claims and pending legal actions involving CPS, including actions concerned with civil rights of employees, workers' compensation, torts, property tax objections, and other matters, arising out of CPS' ordinary conduct of its business. Certain actions involve alleged damages in substantial amounts. The amounts of liability, if any, on these claims as of June 30, 2006, in excess of

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

related insurance coverage with respect to certain claims, are not determinable at this time. In the opinion of CPS management and legal counsel, the final resolution of these claims and legal actions will not be material to CPS' financial statements as of June 30, 2006.

NOTE 16. SUBSEQUENT EVENTS

Derivative Instruments

Series 2003D

Swap Objective. In September 2006 CPS entered into an interest rate swap associated with the Series 2003D bonds as a means of lowering its borrowing costs. The intention of entering into the swap was to effectively lower interest costs by changing the existing hedge on the Series 2003D bonds from 70% of one month LIBOR to 65.02% of five year LIBOR.

Swap terms. The bonds and the related swap agreement mature on December 1, 2034, and the total notional amount of the swaps equals \$185,350,000 principal amount of the Series 2003D bonds. Starting in fiscal year 2018, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS receives an upfront payment of \$250,000 which will be used for costs of issuance and beginning March 1, 2007 pays Bear Stearns Financial Products Inc. a variable payment equal to 70% of one month LIBOR while it receives a variable payment computed at 65.02% of five year LIBOR. Any swap payments payable by CPS will be paid from the General Operating Fund.

Series 1997A

In October 2006, CPS sold an option to Royal Bank of Canada under which CPS may be caused to enter into an interest rate swap associated with \$162,785,000 of the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007) as a means of monetizing the call option of these bonds in a low interest rate environment. The intention of entering into the swap was to effectively and economically refund \$162,785,000 of the Series 1997A bonds, resulting in an upfront payment of \$24,925,000 to be used for costs of issuance and for debt service requirements in fiscal year 2007. Any swap payments payable by CPS upon exercise of the option will be periodic and payable from the same revenue source pledged to the refunding bonds to be issued at that time.

Bond Issuance

Unlimited Tax General Obligation Bonds (Series 2006B)

In September 2006, Chicago Public Schools issued \$355,805,000 in Unlimited Tax General Tax Obligation Bonds (Series 2006B) at a net premium of \$14,443,983. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. The debt service will be paid from General State Aid Revenues.

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture not summarized elsewhere in this Official Statement. Reference is made to the Indenture for a complete description thereof. The discussion herein is qualified by such reference. Definitions used in this Official Statement relating to the Bonds in an Auction Rate Mode and the Auction Procedures are set forth in APPENDIX F – “AUCTION PROCEDURES.”

Definitions of Certain Terms

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

“*Additional Bonds*” means any Alternate Bonds issued by the Board in the future in accordance with the provisions of the Debt Reform Act on a parity with and sharing ratably and equally in all or any portion of the Pledged Revenues with the Bonds, as described in this APPENDIX B under the heading “Additional Bonds Payable from Pledged Revenues.”

“*Adjustment Date*” means (a) the Date of Issuance, (b) any date which is the first day of an Adjustment Period designated pursuant to the terms of the Indenture, (c) any Substitute Adjustment Date designated pursuant to the terms of the Indenture, and (d) any proposed Term Rate Conversion Date or Fixed Rate Conversion Date designated pursuant to the terms of the Indenture.

“*Adjustment Period*” means, with respect to each Bond, each period commencing on an Adjustment Date for such Bond to and including the day immediately preceding the immediately succeeding Adjustment Date for such Bond (or the Maturity Date thereof), during which period such Bond shall operate in one type of Interest Mode.

“*Agent Member*” means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder.

“*All-Hold Rate*” has the meaning set forth in the Indenture.

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

“*ARS Bonds*” means a Sub-series of Bonds bearing interest at the ARS Rate.

“*ARS Conversion Date*” means with respect to the Sub-series of Bonds, the date on which the Bonds of such Sub-series convert from an interest rate period other than an ARS rate Period and begin to bear interest at the Auction Period rate.

“*ARS Index*” has the meaning specified in Section 4.5(L) of the Indenture.

“*ARS Rate*” means for each Sub-series of ARS Bonds, the rates of interest to be borne by the ARS Bonds during each Auction Period determined in accordance with Section 4.5 of the Indenture; provided, in no event may the ARS Rates exceed the Maximum Interest Rate.

“*ARS Rate Period*” means, with respect to any ARS Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

“*Auction*” means each periodic implementation of the Auction Procedures.

“*Auction Agent*” means the Person appointed as Auction Agent in Accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Exhibit C, Schedule I to Section 4.5 “Auction Procedures” of the Indenture.

“*Auction Agreement*” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in the Indenture with respect to the ARS Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“*Auction Date*” means, with respect to any Sub-series of ARS Bonds:

(a) *Daily Auction Period.* If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) *Flexible Auction Period.* If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) *Other Auction Periods.* If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding a Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Sub-series of ARS Boards is set forth in Exhibit C Schedule I to Section 4.5 of the Trust Indenture.

“*Auction Desk*” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“*Auction Period*” means with respect to a:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to any Sub-series of ARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to any Sub-series of ARS Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Periods Generally End this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to any Sub-series of ARS Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to any Sub-series of ARS Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to any Sub-series of ARS Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to any sub-series of ARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in EXHIBIT C of the Indenture;

Provided, however, that if there is a conversion of any Sub-series of ARS Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“Auction Period Rate” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction period determined in accordance with the Auction procedures; provided however, in no event may the Auction Period Rate exceed the Maximum Rate.

“Auction Procedures” means the procedures for conducting Auctions set forth in Section 4.5 of the Indenture.

“Auction Rate” means for any Sub-series of ARS Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate for such Sub-series of ARS Bonds, provided, however, if all of the ARS Bonds are the subject of Submitted Hold Orders, the All Hold Rate for the ARS Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Interest Rate for the ARS Bonds.

“Auction Rate Documents” means any Auction Agent Agreement, Broker-Dealer Agreement or other agreement required to be executed and delivered at any time in order to effectuate the Auction Procedures in connection with any Auction Rate Mode designated by the Board hereunder.

“Auction Rate Mode” means an Interest Mode during which the rate of interest borne by the Bonds is determined as described in APPENDIX F – “AUCTION PROCEDURES.”

“Authorized Denominations” means, (i) with respect to a particular Bond in a Short Mode, \$100,000 and any multiple of \$5,000 in excess thereof, (ii) with respect to a particular Bond in a Term Rate Mode, \$5,000 and any integral multiple thereof; (iii) with respect to a particular Bond in an Auction

Rate Mode, \$5,000, and any integral multiple thereof or such other amount specified in Exhibit C of the Indenture, and integral multiples thereof so long as the ARS Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

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

“Authorizing Document” means the Indenture.

“Available Bonds” means for each Sub-series of ARS Bonds on each Auction Date, the number of units of ARS Bonds that are not the subject of Submitted Hold Orders.

“Bank” means any provider then obligated under a Liquidity Facility delivered in accordance with the terms of the Indenture. As of the date of issuance of the Bonds, there is no Bank.

“Bank Approval” means the written approval of the Bank, if such approval is required pursuant to the then-applicable Liquidity Agreement.

“Bank Bonds” means Tendered Bonds purchased with moneys drawn under the Liquidity Facility pursuant to the Indenture, which are owned by the Bank or its permitted assigns in accordance with the Liquidity Agreement or the Custody Agreement, if any, until such Bonds are remarketed by the Remarketing Agent pursuant to the Remarketing Agreement or such Bonds lose their characterization as Bank Bonds pursuant to the Liquidity Agreement.

“Bank Obligations” means the Board’s obligations under the Liquidity Agreement.

“Bank Rate” means with respect to any Bank Bond, such interest rate or sequence of rates (which may be stated as a formula and may be determined by reference to a specified index or indices) as is specified in the Liquidity Agreement then in effect pursuant to which such Bank Bond was purchased. Notwithstanding the foregoing, at no time shall the Bank Rate be higher than the Maximum Interest Rate.

“Bank Variable Rate” means such portion of the then applicable Bank Rate as is determined by the Remarketing Agent to equal the rate of interest Bank Bonds bearing such Bank Rate would have borne had they not been tendered and purchased by the Bank under the Liquidity Agreement.

“Bid” has the meaning set forth in Section 4.5 of the Indenture.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

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

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

“Bondholder” means the Owner of any Bond.

“Bond Insurance Policy” means the Initial Bond Insurance Policy to be delivered by the Initial Bond Insurer to the Trustee on the Date of Issuance, unless and until such Bond Insurance Policy is canceled pursuant to the Indenture, and thereafter *“Bond Insurance Policy”* means any Substitute Bond Insurance Policy delivered by a Substitute Bond Insurer and accepted by the Trustee in substitution therefor pursuant to the Indenture.

“Bond Insurance Substitution Date” means the day on which a Substitute Bond Insurance Policy becomes effective.

“Bond Insurer” means the Initial Bond Insurer, as issuer of the Initial Bond Insurance Policy, until such Bond Insurance Policy is canceled pursuant to the Indenture, and thereafter “Bond Insurer” means a Substitute Bond Insurer as the obligor on any Substitute Bond Insurance Policy accepted by the Trustee in substitution therefor pursuant to the Indenture.

“Bond Insurer Approval” means the written approval of the Bond Insurer, if such approval is required pursuant to the Indenture or the then-applicable Insurance Agreement.

“Bond Insurer Obligations” means the Board’s obligations to the Bond Insurer pursuant to the Indenture or in connection with the Bond Insurance Policy or any applicable Insurance Agreement.

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

“Bond Purchase Date” has the meaning assigned to such term in the Liquidity Agreement.

“Bond Purchase Fund” means the trust fund so designated which is created and established pursuant to the Indenture.

“Bonds” means, collectively, the \$262,785,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A of the Board, being initially issued under the Indenture in three Sub-Series, as follows: the \$81,785,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-1, the \$81,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-2, and the \$100,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-3, being issued under the Indenture and any Bonds issued hereunder in substitution or replacement therefor, and includes any Bank Bonds from time to time Outstanding.

“Bond Sale Date” has the meaning assigned to such term in the Liquidity Agreement.

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

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Indenture, that is a member of, or a direct participant in, the Securities Depository, and that is a party to a Broker-Dealer Agreement with the Auction Agent. The “Broker-Dealer of record” with respect to any ARS Bond is the Broker-Dealer which placed the Order for such ARS Bond or whom the Existing Owner of such ARS Bond has designated as its Broker-Dealer with respect to such ARS Bond, in each case as reflected in the records of the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Board and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the Auction Procedures as described in the Indenture, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Broker-Dealer Rate” means a rate of .25% per annum with respect to the ARS Bonds or such different rates as may be established pursuant to a Broker-Dealer Agreement.

“Business Day” means any day other than a Saturday, Sunday or (i) a day on which banks located (a) in the city in which the principal corporate trust office of the Trustee is located, (b) in the city in which the office of the Bond Insurer or the Bond Insurer’s custodian at which claims under the Bond Insurance Policy are to be paid (initially, New York, New York) is located, (c) in the city in which the principal United States office of the Bank at which drawings under the Liquidity Agreement are to be honored is located, (d) in the city in which the corporate trust office of the Trustee or the Trustee’s Agent at which the Bonds may be tendered for purchase by the holders thereof is located, (e) in the city in which the principal office of the Auction Agent is located and (f) in the city in which the principal office of the Remarketing Agent is located, are required or authorized to remain closed or (ii) a day on which The New York Stock Exchange is closed.

“Clerical Error” includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners or generated by the Broker-Dealer for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Submission Deadline.

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

“Conversion Date” means the date on which the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

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

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

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

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

“Custody Agreement” means a custody agreement or a pledge and security agreement (which may also be the Liquidity Agreement), if any, entered into by the Trustee, as custodian, and the Bank, and any and all amendments and supplements thereto, relating to Bank Bonds.

“Date of Issuance” means the date of original issuance and delivery of the Bonds hereunder.

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

“Default Auction Rate” means, for ARS Bonds in respect of any Auction Period, a per annum rate equal to five hundred fifty percent (550%) of the ARS Index determined on the Auction Date next

preceding the first day of such Auction Period, provided that in no event will the Default Auction Rate exceed the Maximum Interest Rate.

“Defaulted Interest” means interest on any Bond which is payable but not duly paid on the date due.

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

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

“Delivery Office” means for the Remarketing Agent, such address as shall be specified in any Remarketing Agreement delivered pursuant to the Indenture.

“Demand Date” means, with respect to any Bond during a Weekly Mode, the Business Day specified in the notice received by the Trustee’s Agent upon which the Owner of such Bond intends to tender such Bond (or any portion thereof in an Authorized Denomination) for purchase as provided in Section 3.1 of the Indenture, which Business Day shall be not less than seven calendar days after the date such notice is received.

“Deposit Sub-Account” means the sub-account of that name in the Pledged Revenues Account established in the Indenture.

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

“Differential Interest Amount” means an amount equal to the excess of (a) interest which has accrued and could actually be paid on Bank Bonds at the Bank Rate up to but excluding the Bond Sale Date, less (b) the interest accrued on such Bank Bonds at the Bank Variable Rate received by the Bank from the purchaser or purchasers of such Bank Bonds on the Bond Sale Date as part of the purchase price thereof.

“DTC” means The Depository Trust Company, New York, New York, as the initial Securities Depository for the Bonds.

“Electronic Means” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Error Correction Deadline” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Escrow Agent” means Amalgamated Bank of Chicago, Chicago, Illinois, as escrow agent under the Escrow Agreement, and any successor or successors appointed thereunder.

“Escrow Agreement” means the Fourth Restated Master Alternate Bonds Escrow Agreement, dated as of September 1, 2007, between the Board and the Escrow Agent, providing for the segregation and distribution of the Intergovernmental Agreement Revenues and the Personal Property Replacement Tax Revenues, delivered in connection with the issuance of the Bonds, as from time to time hereafter supplemented and amended as provided therein.

“Escrow Fund” means the fund of that name established pursuant to the Refunding Escrow Agreement.

“Event of Default” means any event so designated and specified as described in this APPENDIX B under the heading “Events of Defaults and Remedies – Events of Default.”

“Existing Owner” means a Person who is listed as the beneficial owner of ARS Bonds in the records of the Auction Agent; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

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

“Financial Guaranty Insurance Policy” means the financial guaranty insurance policy issued by Ambac Assurance Corporation insuring the payment when due of the principal of and interest on the Bonds as provided herein.

“Financing Documents” means the Indenture, the Remarketing Agreement and the Auction Rate Documents.

“Fitch” means Fitch Ratings, its successors and assigns, and, if Fitch shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

“Fixed Mode” means the Adjustment Period commencing on the Fixed Rate Conversion Date for a Bond and ending on the Maturity Date thereof, as established pursuant to the Indenture, during which the Bonds which bear interest during such Adjustment Period bear interest at the Fixed Rate.

“Fixed Rate” means, for the Fixed Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Fixed Rate Conversion Date for such Fixed Mode.

“Fixed Rate Conversion” means the conversion of the interest rate to be borne by all or any portion of the Bonds to a Fixed Rate pursuant to the Indenture.

“Fixed Rate Conversion Date” means an Adjustment Date for any Bond on which it begins to bear interest at a Fixed Rate.

“Flexible Auction Period” means,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of ARS Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of Bonds with Auctions generally

conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of ARS Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of ARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends no later than the final scheduled maturity date of the ARS Bonds.

“Flexible Mode” means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 30 days (or such duration as short as two days as may be approved by the Board by written notice to the Trustee and the Remarketing Agent) nor more than 366 days) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Flexible Rate; provided that the Rate Determination Date and the Rate Change Date for each Rate Period within any such Adjustment Period shall not have a duration of more than 90 days without Bond Insurer Approval.

“Flexible Rate” means, for each Rate Period within a Flexible Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Rate Change Date for such Rate Period.

“Forward Supply Contract” means any contract entered into between the Board and a supplier of Investment Securities selected by or pursuant to the direction of the Board (a “Counterparty”) pursuant to which the Counterparty agrees to sell to the Board (or to the Trustee on behalf of the Board) and the Board (or the Trustee on behalf of the Board) agrees to purchase specified Investment Securities on specific dates at specific purchase prices, all as established at the time of the execution and delivery of such contract and as set forth in such contract. Any amounts due and owing from the Board to the Counterparty pursuant to any Forward Supply Contract (other than the specified purchase prices of the Investment Securities set forth therein) shall be treated as current operating expenses of the Board subject to annual appropriation, and shall not constitute indebtedness of the Board.

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

“Hold Order” has the meaning set forth in the Indenture.

“Immediate Notice” means notice by telephone, telex or telecopier to such address as the addressee shall have directed in writing, promptly followed by written notice by first class mail, postage

prepaid; provided, however, that if any person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, telex or telecopier number of an addressee, Immediate Notice means written notice by first class mail, postage prepaid.

“*Indenture*” means the Trust Indenture, dated as of September 1, 2007, by and between the Board and the Trustee, as from time to time amended and supplemented.

“*Initial ARS Rate*” means with respect to each Sub-series of Bonds, the interest rate for the Initial Interest Period.

“*Initial Auction Dates*” means (i) with respect to the Series 2007A-1 Bonds, September 18, 2007, (ii) with respect to the Series 2007A-2 Bonds, September 13, 2007, and (iii) with respect to the Series 2007A-3 Bonds, September 12, 2007.

“*Initial Bond Insurance Policy*” means, collectively, the insurance policy issued by the Initial Bond Insurer guaranteeing the scheduled payment when due of principal of and interest on the Series 2007A-1 Bonds, the Series 2007A-2 Bonds, and the Series 2007A-3 Bonds.

“*Initial Bond Insurer*” means Ambac Assurance Corporation, or any successor thereto or assignee thereof.

“*Initial Interest Payment Date*” with respect to each Sub-series of Bonds, means the day next succeeding the last day of the respective Initial Interest Period, or if any such date is not a Business Day, the next succeeding Business Day (but only for interest accrued through the last day of such Initial Interest Period next proceeding such Initial Interest Payment Date).

“*Initial Interest Period*” with respect to each Sub-series of the Bonds, means the period from and including the date of original delivery of the Bonds to and including the respective Initial Auction Date.

“*Initial Swap Agreements*” means, collectively, (i) the ISDA Master Agreement dated February 4, 2003 as amended by the First Amendment to the ISDA Agreement dated December 5, 2003, the Schedule and the Credit Support Annex to the Schedule, each dated as of February 4, 2003, and the related Confirmation, between the Board and Bank of America, N.A. dated August 31, 2005; (ii) the ISDA Master Agreement, the Schedule and the Credit Annex to the Schedule, each dated as of July 14, 2006, and the related Confirmation, between the Board and Royal Bank of Canada dated November 16, 2006.

“*Initial Swap Providers*” means, collectively, Bank of America, N.A. and Royal Bank of Canada, and their respective successors and assigns, as counterparties to the Initial Swap Agreements.

“*Insolvency Proceeding*” means the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the Board as debtor, other than any involuntary proceeding that has been finally dismissed without entry of an order for relief or similar order and as to which all appeal periods have expired.

“*Insurance Agreement*” means any agreement between the Board and a Bond Insurer, executed and delivered from time to time, relating to the Board’s obligations to a Bond Insurer.

“*Interest Coverage Rate*” means the rate used in the Liquidity Facility to calculate the maximum amount (as reduced and restated from time to time in accordance with the terms thereof) which is available for the payment of the portion of the purchase price of Tendered Bonds corresponding to interest accrued on the Tendered Bonds.

“Interest Deposit Sub-Account” means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established in the Indenture.

“Intergovernmental Agreement” means the Intergovernmental Agreement dated as of October 1, 1997, by and between the Board and the City of Chicago, as from time to time amended and supplemented.

“Intergovernmental Agreement Revenues” means the amounts paid to the Board pursuant to the Intergovernmental Agreement.

“Intergovernmental Agreement Revenues Sub-Account” means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established by this Indenture.

“Interest Mode” means a period of time relating to the frequency with which the interest rate on the Bonds is determined pursuant to the Indenture. An Interest Mode may be a Weekly Mode, a Flexible Mode, a Term Rate Mode an Auction Rate Mode or a Fixed Mode.

“Interest Payment Date” means each Initial Interest Payment Date and, thereafter, (a) for each Bond, each Adjustment Date therefor, (b) for any Bond in the Weekly Mode, the first Business Day of each calendar month, (c) for any Bond in a Flexible Mode, each Rate Change Date therefor, (d) for any Bond in the Term Rate Mode, each Stated Interest Payment Date occurring in such Rate Period (beginning with the first Stated Interest Payment Date that occurs no earlier than 6 months after the commencement of such Rate Period), (e) for any Bond in a Fixed Mode, each June 1 and December 1, commencing as provided in Section 4.3 of the Indenture, (f) for any Bank Bond, such dates as are specified in the Liquidity Agreement, (g) with respect to Bonds bearing interest at ARS Rates, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for such Sub-series ARS Bonds as set forth in this Indenture and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of such Sub-series ARS Bonds becomes due and payable (whether at stated maturity upon redemption or acceleration otherwise), and (h) for each Bond, the Maturity Date thereof; provided that, except with respect to (i) Bonds in the Flexible Mode (without the approval of the Board described in the definition of such term) or (ii) any Interest Payment Dates with respect to remarketed Bank Bonds under (f), in no event shall more than one Interest Payment Date for the Bonds occur in any one calendar month.

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

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

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

- (i) Government Obligations;

(ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Farmers Home Administration
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

(iii) Senior debt obligations which at the time of purchase are rated “AAA” by Standard & Poor’s Ratings Services (“S&P”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) issued by the Fannie Mae or the Federal Home Loan Mortgage Corporation, senior debt obligations of other government agencies;

(iv) U.S. dollar denominated deposit accounts, federal funds and banker’s acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and “P-1” by Moody’s and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

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

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

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

(viii) Pre-refunded Municipal Obligations; and

(ix) Forward Supply Contracts.

“*Letter of Representations*” means the Blanket Issuer Letter of Representations dated March 15, 2002, between the Board and DTC, relating to the book-entry only system for the Bonds described in Section 2.9 of the Indenture.

“*Liquidity Agreement*” means any agreement then governing the Liquidity Facility, including a Substitute Liquidity Agreement, as it may from time to time be amended or supplemented, provided that the form of any such agreement shall be subject to Bond Insurer Approval, which Approval shall not be unreasonably withheld.

“*Liquidity Agreement Default*” means each “default” or “event of default,” if any, under a Liquidity Facility, the consequence of notice of which is that the Bonds shall be subject to mandatory tender pursuant to the Indenture.

“*Liquidity Facility*” means the obligation of the Bank to provide funds for the purpose of purchasing Tendered Bonds, which Liquidity Facility may be in the form of a line of credit, bond purchase agreement or letter of credit, and includes any Substitute Liquidity Facility that may be delivered pursuant to the Indenture.

“*Liquidity Facility Cancellation Date*” has the meaning attributed to it in Section 6.2(B) of the Indenture.

“*Liquidity Substitution Date*” means the day on which a Substitute Liquidity Facility becomes effective.

“*Maturity Date*” means, (i) with respect to the Series 2007A-1 Bonds, December 1, 2028, (ii) with respect to the Series 2007A-2 Bonds, December 1, 2028, and (iii) with respect to the Series 2007A-3 Bonds, December 1, 2030.

“*Maximum Interest Rate*” means, with respect to any of the Bonds at any time, the lesser of (i) the Statutory Maximum Rate, (ii) while the Bonds are in a Short Mode, the applicable Interest Coverage Rate or (iii) 12%.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

“*Opinion of Bond Counsel*” means a written opinion of Bond Counsel in form and substance acceptable to the Board and the Trustee, which opinion may be based on a ruling or rulings of the Internal Revenue Service.

“*Order*” means a Hold Order, Bid or Sell Order.

“*Outstanding*” means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(i) Any Bonds cancelled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys and/or Defeasance Obligations, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds will have been authenticated and delivered in connection with any substitution, transfer or exchange; and

(iv) Bonds deemed to have been paid as described in this APPENDIX B under the heading “Defeasance.”

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

“*1998 Authorization*” means the authorization adopted by the Board pursuant to Resolution No. 98-0826-RS7 on August 26, 1998, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed \$900,000,000.

“*Participant*,” when used with respect to any Securities Depository, means any participant of such Securities Depository.

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

“*Payment Sub-Account*” means the sub-account of that name in the Pledged Revenues Account established in the Indenture.

“*Person*” means and includes an association, unincorporated organization, a corporation, a partnership, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

“*Personal Property Replacement Tax Revenues*” means the amounts allocated and paid to the Board from the Personal Property Tax Replacement Fund of the State pursuant to Section 12 of the State Revenue Sharing Act of the State, as amended, or from such successor or replacement fund or act as may be enacted in the future.

“*Pledged Intergovernmental Agreement Revenues*” means Intergovernmental Agreement Revenues in amounts each year as shall provide for the debt service payments set forth in EXHIBIT B of the Indenture in each year under the heading “Intergovernmental Agreement Revenues” and the provision of not less than an additional .25 times such amounts in such years.

“*Pledged PPRT Revenues*” means Personal Property Replacement Tax Revenues received or to be received by the Board in any Year remaining after any required allocation thereof to provide for the payment of (i) the Statutory claims and (ii) the Series 1996 Bonds and the Series 1997 Bonds, in amounts each year as shall provide for the payment of the Bonds and the provision of not less than an additional .25 times such amounts in such years, and pledged under the Indenture as security for the Bonds.

“*Pledged Revenues*” means Pledged PPRT Revenues and the Pledged Intergovernmental Agreement Revenues in an amount sufficient to provide in any year for the payment of the Bonds and any Swap Payments and the provision of not less than an additional .25 times debt service on the Bonds in such year.

“*Pledged Revenues Account*” means the account of that name in the Debt Service Fund established in Section 5.3 of the Indenture.

“*Pledged Revenues Account Requirement*” means:

(i) on each Deposit Date, with respect to the Bonds bearing interest at a Short Rate or an ARS Rate, an amount equal to the sum of (A) one year’s interest on such Bonds based upon the aggregate

principal amount of such Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an interest rate equal to the greater of (x) 4.50% or (y) the actual weighted average interest rate borne by such Bonds for the 12 month period ending on the preceding February 1; provided that such amount shall be increased or decreased, as appropriate, giving effect to the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a fixed rate of interest, such amount shall be increased or decreased, as appropriate, giving effect to the known fixed rate of interest to accrue with respect to such Swap Agreement for such period of time during the next succeeding Bond Year that such Swap Agreement shall be in effect, (B) if no Swap Agreement is in place, the known interest to accrue with respect to any Bonds in the Flexible Mode or the Auction Rate Mode on such Deposit Date for which the Interest Payment Date occurs in the next succeeding Bond Year from the first day of the Rate Period for such Bonds to the last day of the then current Bond Year, and (C) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year; and

(iii) on each Deposit Date, with respect to any Bank Bonds, an amount equal to the sum of (A) one year's interest on such Bank Bonds based upon the aggregate principal amount of such Bank Bonds scheduled to be Outstanding on the first day of the next succeeding Bond Year and an assumed interest rate equal to the greater of (i) 9% or (ii) the average Bank Rate for the 12 month period ending on the preceding February 1 (regardless of whether Bank Bonds are Outstanding during such period) and (B) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the next succeeding Bond Year.

"Pledged Taxes" means the ad valorem taxes levied or to be levied pursuant to the covenant contained in the Indenture against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture.

"Pledged Taxes Account" means the account of that name in the Debt Service Fund established in the Indenture.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the ARS Bonds in addition to the ARS Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

"PPRT Revenues Sub-Account" means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established by this Indenture.

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

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

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption

date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the Board, the Trustee, and each Broker-Dealer.

“Principal Sub-Account” means the sub-account of that name in the Bond Payment Account established in Section 5.3 of the Indenture.

“Prior Bonds” means the Series 1997A Bonds.

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

“Program Expense Fund” means the Program Expense Fund established in the Indenture and in which the Board may, at its option, deposit funds to be used to pay the ongoing fees of the Auction Agent and the Broker Dealers.

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

“Rate Change Date” means for each Rate Period (a) during any Weekly Mode, Thursday or such other day of the week designated as such by the Remarketing Agent from time to time, in accordance with the provisions of the Indenture, (b) during any Flexible Mode, the Business Day(s) specified in the notice delivered to the Trustee in accordance with the Indenture, (c) during any Term Rate Mode, the Business Day(s) specified in the notice delivered to the Trustee in accordance with the Indenture, (d) during any Auction Rate Mode, as provided in APPENDIX F and (e) each Adjustment Date.

“Rate Determination Date” means for (a) each Rate Period during any Weekly Mode, Wednesday or such other day of the week designated as such by the Remarketing Agent from time to time, in accordance with the provisions of the Indenture, next preceding the Rate Change Date for such Rate Period (unless such day is not a Business Day, in which case the Rate Determination Date shall be the immediately preceding Business Day), (b) each Rate Period during any Flexible Mode, the Rate Change Date for such Rate Period specified in the notice delivered to the Trustee in accordance with the Indenture, (c) each Rate Period during a Term Rate Mode, a Business Day no earlier than thirty (30) Business Days and no later than the Business Day next preceding the first day of a Rate Period, as determined by the Remarketing Agent, (d) the Rate Period during a Fixed Mode, the date of the firm underwriting or purchase contract referred to in the Indenture, (e) the Rate Period following a proposed Fixed Rate Conversion Date in the event of a failed conversion, such proposed Fixed Rate Conversion Date, (f) for each Auction Period during any Auction Rate Mode, as provided in APPENDIX F, and (g) the Rate Period following a failed Interest Mode conversion pursuant to the Indenture, the proposed Adjustment Date.

“Rate Period” means, with respect to each Bond, each period commencing on a Rate Change Date for such Bond to and including the day immediately preceding the immediately succeeding Rate Change Date for such Bond (or the Maturity Date or date of redemption thereof), during which period such Bond shall bear interest at one specific interest rate.

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

“Record Date” means notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“Redemption Price” means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

“Refunding Escrow Agent” means Amalgamated Bank of Chicago, Chicago, Illinois.

“Refunding Escrow Agreement” means the Series 1997A Refunding Escrow Agreement dated as of September 1, 2007, between the Board and the Refunding Escrow Agent as from time to time amended.

“Registrar” means the Trustee and any other bank, national banking association or trust company appointed by a Designated Official under the Indenture and designated as registrar for the Bonds, and its successor or successors.

“Remarketing Agent” means the placement or remarketing agent at the time serving as such under the Remarketing Agreement and designated by the Board as the Remarketing Agent for purposes of the Indenture.

“Remarketing Agreement” means any Remarketing Agreement between the Board and a Remarketing Agent delivered under the Indenture, as the same may be amended, supplemented or assigned from time to time, or any similar agreement as may be substituted therefor.

“Schedule I” means Schedule I to Section 4.5 of the Indenture “Auction Procedures”.

“School Code” means the School Code of the State of Illinois, as amended.

“School District” means the school district constituted by the City of Chicago pursuant to Article 34 of the School Code, and governed by the Chicago Board of Education.

“Securities Depository” means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Board.

“Sell Order” has the meaning specified in Section 4.5(B) of this Indenture.

“Series 1996 Bonds” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996, of the Board.

“Series 1997 Bonds” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, of the Board.

“Series 1997A Bonds” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A, of the Board.

“Series 1998 Bonds” means the Qualified Zone Academy General Obligation (Alternate) Bonds (Bronzeville Academy Project), Series 1998, of the Board.

“*Series 1998B-1 Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1998B-1, of the Board.

“*Series 1999A Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1999A, of the Board.

“*Series 2004A Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004A, of the Board.

“*Series 2005B Bonds*” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2005B, of the Board.

“*Series 1997A Bonds*” means the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 1997A of the Board.

“*Series 1997A Indenture*” means the Trust Indenture, dated as of November 1, 1997, between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee, providing for the issuance of the Series 1997A Bonds.

“*Series 2007A Bonds*” means the \$262,785,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A of the Board.

“*Series 2007A-1 Bonds*” means the \$81,785,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-1, being issued under the Indenture.

“*Series 2007A-2 Bonds*” means the \$81,000,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-2, being issued under the Indenture.

“*Series 2007A-3 Bonds*” means the \$100,000,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-3, being issued under the Indenture.

“*Series 2007B Bonds*” means the \$197,765,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007B, of the Board, being issued under Section 2.2(A) of the Indenture and any bonds issued hereunder in substitution or replacement therefor.

“*Series 2007C Bonds*” means the \$6,870,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007C, of the Board, being issued under Section 2.2(B) of the Indenture and any bonds issued hereunder in substitution or replacement therefor.

“*Short Mode*” means a Flexible Mode or a Weekly Mode.

“*Short Rate*” means a Flexible Rate or a Weekly Rate.

“*SIFMA Index*” means the Securities Industry and Financial Markets Association (“SIFMA”) Municipal Swap Index, formerly the Bond Market Association/PSA Municipal Swap Index of Municipal Market Data, most recently available as of the date of determination.

“*SLG’s*” means United States Treasury Certificates of Indebtedness, Notes and Bonds – State and Local Government Series.

“*Special Auction Period*” means any period of not less than 7 days and not more than 365 days to be determined by the Broker-Dealer which begins on an Interest Payment Date and ends on a date designated by the Broker-Dealer unless such date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

“*Special Liquidity Default*” means each “default” or “event of default,” if any, under a Liquidity Agreement the consequence of which is that the obligation of the Bank to provide funds for the purchase of Tendered Bonds thereunder is either suspended or terminated without prior notice to Owners, as described in the Indenture.

“*Special Record Date*” means the date fixed by the Trustee pursuant to the Indenture for the payment of Defaulted Interest.

“*S&P*” means Standard & Poor’s, a Division of The McGraw-Hill Companies, Inc., its successors and assigns, and, if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Board by notice to the Trustee.

“*State*” means the State of Illinois.

“*Stated Interest Payment Dates*” means each June 1, and/or December 1.

“*Stated Termination Date*” means the stated date upon which the Liquidity Facility under a Liquidity Agreement by its term expires, as the same may be extended from time to time.

“*Statutory Claims*” mean those claims, currently for pension or retirement obligations previously levied and collected from extensions of taxes against personal property, that are required to be paid from the Personal Property Replacement Tax Revenues prior to any other application or use thereof pursuant to Section 12 of the State Revenue Sharing Act, or such successor or replacement act as may be enacted in the future.

“*Statutory Maximum Rate*” means the maximum rate of interest permitted for the Bonds from time to time pursuant to applicable law, including the Bond Authorization Act of the State, as amended.

“*Statutory Refunding Bonds*” shall have the meaning given to such term in the recitals to the Indenture.

“*Sub-series*” or “*sub-series*” means, in connection with the issuance of the Bonds as multiple Sub-series, each Sub-series of the Bonds as multiple sub-series, each sub-series of the Bonds bearing a distinct numerical designation.

“*Submission Deadline*” means, unless hanged by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Bond Trustee or the Board pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by

the Bond Trustee or the Board. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“*Submitted Bid*” has the meaning set forth in Section 4.5(F) of the Indenture.

“*Submitted Hold Order*” has the meaning set forth in Section 4.5(F) of the Indenture.

“*Submitted Order*” has the meaning set forth in Section 4.5(F) of the Indenture.

“*Submitted Sell Order*” has the meaning set forth in Section 4.5(F) of the Indenture.

“*Substitute Adjustment Date*” means any Business Day during any Adjustment Period for Bank Bonds designated by the Board in accordance with the Indenture as the first day of a new Adjustment Period.

“*Substitute Bank*” means one or more commercial banks, trust companies or financial institutions obligated under any Substitute Liquidity Agreement selected by the Board.

“*Substitute Bond Insurance Policy*” means a policy (including endorsements) containing terms which are in all material respects the same as or equivalent to those provided by the Initial Bond Insurance Policy, which insures the payment of the principal of and interest on the Bonds when due and acceptable to the Bank and the Board.

“*Substitute Bond Insurer*” means an insurance company or financial institution obligated on any Substitute Bond Insurance Policy and acceptable to the Bank and the Board, and its successors and assigns and any surviving, resulting and transferee corporation.

“*Substitute Liquidity Agreement*” means any agreement (other than the Liquidity Agreement then in place) between the Board and any Substitute Bank pursuant to which a Substitute Liquidity Facility shall be in effect, as it may from time to time be amended and supplemented.

“*Substitute Liquidity Facility*” means a Liquidity Facility provided by a Substitute Bank other than the Bank providing the Liquidity Facility on or prior to the Liquidity Substitution Date; provided, however, that none of the following shall be deemed a Substitute Liquidity Facility: a change in the Liquidity Agreement pursuant to which the Liquidity Facility is issued; a change in the number of days of interest or interest rate covered by the Liquidity Facility; and a renewal of the term of the existing Liquidity Facility.

“*Sufficient Clearing Bids*” means an Auction for which the number of Units of a Sub-series of ARS Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the number of Units of the ARS Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

“*Supplemental Indenture*” means any Supplemental Indenture between the Board and the Trustee authorized as described in this APPENDIX B under the caption “Supplemental Indentures.”

“*Swap Agreements*” means the Initial Swap Agreements and any other agreement between the Board and a counterparty, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis from that provided in the Bonds for the payment of interest.

“*Swap Payment*” means, with respect to each Swap Agreement, each periodic scheduled payment owing to the Swap Provider made with respect to the notional amount identified in such Swap Agreement. For purposes of the Indenture, “Swap Payment” excludes any non-scheduled payments, including but not limited to termination payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

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

“*Swap Payment Date*” has the meaning set forth in Section 5.4(D) of the indenture.

“*Swap Providers*” means the Initial Swap Providers and any other counterparty to a Swap Agreement.

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

“*Tendered Bonds*” means Bonds tendered or deemed tendered for purchase pursuant to the Indenture.

“*Term Rate*” means for each Rate Period within a Term Rate Mode applicable to a Bond, a fixed per annum interest rate borne by such Bond established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof on the Rate Change Date for such Rate Period.

“*Term Rate Conversion Date*” means an Adjustment Date for any Bond on which it begins to bear interest at a Term Rate.

“*Term Rate Mode*” means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 12 months nor extend beyond the Maturity Date) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Term Rate.

“*Trustee*” means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the Indenture as thereafter provided. The “principal corporate trust office” of the Trustee means One West Monroe, 3rd Floor, Chicago, Illinois 60603, Attention: Corporate Trust Department, or such other address as is provided by the Trustee.

“*Trust Estate*” means the Pledged Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Indenture.

“*Trustee’s Agent*” means (i) the Trustee or (ii) any agent designated as Trustee’s Agent by the Trustee and at the time serving in that capacity. Any agent so designated by the Trustee shall execute a written agreement with the Trustee assuming all obligations of the Trustee hereunder with respect to those duties of the Trustee such agent agrees to perform on behalf of the Trustee.

“*Units*” has the meaning set forth in Section 4.5(C)(i)(c) in the Indenture.

“*2005 Bond Resolution*” means Resolution No. 05-0622-RS76, adopted by the Board on June 22, 2005, as supplemented by Resolution No. 07-0725-RS5, adopted by the Board on July 25, 2007.

“2005 Pledged Taxes” means the taxes levied pursuant to the 2005 Bond Resolution.

“2005 Sub-Account” means the sub-account of that name in the Pledged Taxes Account established in Section 5.3 of the Indenture.

“2006 Authorization” means the authorization adopted by the Board pursuant to Resolution No. 06-0628-RS78 on June 28, 2006, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed \$750,000,000.

“2006 Bond Resolution” means Resolution No. 06-0927-RS4, adopted by the Board on September 27, 2006, as supplemented by Resolution No. 07-0725-RS5, adopted by the Board on July 25, 2007.

“2006 Pledged Taxes” means the taxes levied pursuant to the 2006 Bond Resolution.

“2006 Sub-Account” means the sub-account of that name in the Pledged Taxes Account established in Section 5.3 of the Indenture.

“Weekly Mode” means an Interest Mode during which the rate of interest borne by the Bonds is determined on a weekly basis as set forth in the Indenture.

“Weekly Rate” means, for each Rate Period during any Weekly Mode, the rate of interest established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period.

“Winning Bid Rate” means the lowest rate specified in any Submitted Bid of such Sub-series of ARS Bonds which if calculated by the Auction Agent as the ARS Rate would cause the number of Units of such ARS Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Sub-series of Bonds.

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

Pledge of Trust Estate

In order to secure the payment of the principal of, premium, if any, and interest on all Bonds issued under the Indenture, according to the import thereof, and the performance and observance of each and every covenant and condition contained in the Indenture and in the Bonds, the Board pledges and grants in the Indenture a lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, for the benefit of the Owners, the Bank and the Bond Insurer, to the extent provided in the Indenture:

- (a) The Pledged Revenues and the Pledged Taxes;
- (b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture, with the exception of the Bond Purchase Fund (which will be held exclusively for the payment of the purchase price of Tendered Bonds), the Program Expense Fund, and the Swap Payment Account; and
- (c) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons to be held by the Trustee under the terms of the Indenture.

The Bonds Are General Obligations

Once issued, the Bonds are at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged Revenues, from Pledged Taxes, as described in the Indenture. The Series 2007A-3 Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the 2005 Pledged Taxes shall have been extended for collection, in which case the Outstanding Series 2007A-3 Bonds shall, to the extent required by law, be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows that the Series 2007A-3 Bonds have been paid from the Pledged Revenues for a complete fiscal year of the Board.

The Series 2007A-1 Bonds and the Series 2007A-2 Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the 2006 Pledged Taxes shall have been extended for collection, in which case the Outstanding Series 2007A-1 Bonds and the Outstanding 2007A-2 Bonds shall, to the extent required by law, be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows that the Series 2007A-1 Bonds and the Series 2007A-2 Bonds have been paid from the Pledged Revenues for a complete fiscal year of the Board.

The Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the Pledged Revenues or any other source of payment which may be pledged under the Act, and any such Additional Bonds shall share ratably and equally in the Pledged Revenues with the Bonds; provided, however, that no Additional Bonds shall be issued except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Intergovernmental Agreement Revenues subordinate to the Bonds. Such subordinate obligations will be paid from Intergovernmental Agreement Revenues available to the Board in each year in excess of those required to be deposited in the Pledged PPRT Revenues Account hereunder during such Year.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Intergovernmental Agreement Revenues subordinate to the Bonds. Such subordinate obligations will be paid from Intergovernmental Agreement Revenues available to the Board in each year in excess of those required to be deposited in the Pledged Revenue Account hereunder during such year.

Additional Bonds Payable From Pledged Revenues

The Board will not issue any bonds or other evidences of indebtedness other than the Bonds, which are secured by a pledge of or lien on the Pledged Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture except in accordance with the provisions of the Indenture. The Indenture authorizes the issuance of Additional Bonds payable from all or any portion of the Pledged Revenues or any other source of payment which may be pledged under the Debt Reform Act, and any such Additional Bonds will share ratably and equally in the Pledged Revenues with the Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds.

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

Provisions Regarding Payment of Bonds

The principal of and premium, if any, on Bonds bearing interest at a Bank Rate, a Short Rate or an Auction Rate will be payable at the principal corporate trust office of the Trustee, upon presentation and surrender of such Bonds. The principal of and premium, if any, on Bonds bearing interest at a Term Rate or Fixed Rate will be payable at the principal corporate trust office of the Trustee or, at the option of the registered owner, at the principal corporate trust office of any Paying Agent, if any, named in any such Bond, upon presentation and surrender of such Bonds.

Interest on Bonds bearing interest at a Weekly Rate, Term Rate, an ARS Rate, Term Rate or a Fixed Rate will be paid by check mailed on the Interest Payment Date to the persons appearing on the Bond Register as the registered owners thereof as of the close of business of the Trustee on the Record Date at the address of such registered owners as they appear on the Bond Register or at such other addresses as are furnished to the Trustee in writing by such registered owners not later than the Record Date. Payment of interest on Bonds bearing interest at a Flexible Rate will be made to the persons appearing on the Bond Register as the registered owners thereof as of the close of business of the Trustee on the Record Date, upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date. Payment of interest on any Bond will be made to registered owners of \$1,000,000 or more in aggregate principal amount of Bonds as of the close of business of the Trustee on the Record Date for a particular Interest Payment Date by wire transfer to such registered owner on such Interest Payment Date upon written notice from such registered owner containing the wire transfer address within the United States to which such registered owner wishes to have such wire directed, which written notice is received not later than the Business Day next preceding the Record Date; provided that such wire transfer will only be made for Bonds bearing interest at a Flexible Rate upon presentation and surrender of such Bonds at the principal corporate trust office of the Trustee on the applicable Interest Payment Date.

Provisions Regarding Transfer and Exchange of Bonds

Subject to the provisions described in the Official Statement under the heading “The Bonds – Book-Entry Only System” and in the immediately succeeding paragraph, upon surrender for registration of transfer of any Bond at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee and duly executed by the Owner or such Owner’s attorney duly authorized in writing, the Board will execute, and the Trustee will authenticate and deliver, in the name of the transferee or transferees a new Bond or Bonds of like date and tenor in Authorized Denominations of the same Maturity Date for the aggregate principal amount which the Owner is entitled to receive. Subject to the limitations contained in the immediately succeeding paragraph, Bonds may be exchanged at such times at such principal corporate trust office of the Trustee upon surrender thereof together with an assignment duly executed by the Owner thereof or such Owner’s attorney in such form and with guarantee of signature as is satisfactory to the Trustee for an equal aggregate principal amount of Bonds of like date and tenor of any Authorized Denomination as the Bonds surrendered for exchange. The execution by the Board of any Bond of any Authorized Denomination will constitute full and due authorization of such Authorized Denomination, and the Trustee will thereby be authorized to authenticate and deliver such registered Bond.

Subsequent to a Term Rate Conversion Date or the Fixed Rate Conversion Date for any Bond, the Trustee will not be required to transfer or exchange such Bond during the period commencing on the Record Date next preceding any Interest Payment Date of such Bond and ending on such Interest Payment Date, or to transfer or exchange such Bond after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture or during the period of 15 days next preceding the giving of notice of redemption of Bonds of the same Maturity Date and interest rate which were

converted on the same date. Prior to a Term Rate Conversion Date or the Fixed Rate Conversion Date applicable to any Bonds, the Trustee will not be required to exchange or register the transfer of such Bond after the mailing of notice calling such Bond for redemption has been made as provided in the Indenture, except that the Board and the Trustee will be required to issue or register the transfer of Tendered Bonds after such date of mailing of notice of redemption.

No service charge will be imposed upon the Owners for any exchange or transfer of Bonds. The Board and the Trustee may, however, require payment by the person requesting an exchange or transfer of Bonds of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, except in the case of the issuance of a Bond or Bonds for the unredeemed portion of a Bond surrendered for redemption in part.

Establishment and Application of Funds and Accounts

The Bond Purchase Fund, Program Expense Fund, Costs of issuance Account and Debt Service Fund are established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture. Within the Debt Service Fund are established the Pledged Revenues Account, consisting of the Deposit Sub-Account and the Payment Sub-Account, which Payment Sub-Account shall further consist of (i) the Interest Deposit Sub-Account, (ii) the PPRT Revenues Sub-Account, and (iii) the Intergovernmental Agreement Revenues Sub-Account; the Pledged Taxes Account, the Bond Payment Account, consisting of the Interest Sub-Account and the Principal Sub-Account; and the SWAP Payment Account. Moneys will be deposited in the above accounts and paid out from time to time by the Trustee as provided in the Indenture.

Investment of Funds

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and the Costs of Issuance Account but excluding any moneys derived from payments under the Bond Insurance Policy and excluding any moneys in the Bond Purchase Fund) shall be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters of the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund or Account; provided, however, that proceeds of the Liquidity Facility or the Bond Insurance Policy shall only be invested in Government Obligations of the type described in clause (i) of the definition of such term. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. The Board has provided a certified copy of the Investment Policy to the Trustee in connection with the initial delivery of the Bonds and the Board covenants and agrees to provide to the Trustee in a timely fashion any amendments to or revisions of such Investment Policy. The Trustee shall be entitled to conclusively rely on the Investment Policy provided to it by the Board as the Investment Policy in effect at the time any investment is made. All investment income shall be retained in the Fund or Account to which the investment is credited from which such income is derived.

All investments made under the Indenture shall be consistent with the expectations expressed in the Tax Agreement.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under the Indenture will be deemed at all times to be part of such Fund, Account or Sub-Account and any profit realized from the liquidation of such investment will be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment will be charged to such Fund, Account or Sub-Account.

Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture will be made by the Trustee as often as may be necessary or reasonably requested by the Board to determine the amounts held therein. In computing the amounts in such Funds, Accounts and Sub-Accounts, Investment Securities therein will be valued as provided in the following paragraph.

The value of Investment Securities will mean the fair market value thereof, provided, however, that all SLG's will be valued at par and those obligations which are redeemable at the option of the holder will be valued at the price at which such obligations are then redeemable.

Except as otherwise provided in the Indenture, the Trustee at the written direction of a Designated Official will sell at the best price obtainable, or present for redemption, any Investment Security held in any Fund, Account or Sub-Account held by the Trustee whenever it will be necessary to provide moneys to meet any payment or transfer from such Fund, Account or Sub-Account as the case may be.

Particular Covenants and Representations of the Board

Covenants Regarding Pledged Revenues

Pursuant to the Intergovernmental Agreement, the Chief Financial Officer of the City of Chicago has executed and delivered a written direction to each of the County Collectors to deposit all collections of the Intergovernmental Agreement Revenues in each Year, directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. So long as any of the Bonds remain Outstanding, the Board will not agree to amend or supplement the Intergovernmental Agreement so as to authorized the modification or amendment of such direction, except for such modifications or amendments as may be (i) necessitated by changes in State law or (ii) necessary in connection with the issuance of Additional Bonds; *provided*, that no such modification or amendment shall provide for the deposit with the Escrow Agent of less than all of the Intergovernmental Agreement Revenues to be paid to the Board during any Year.

The Board has directed the Department of Revenue of the State to deposit all Personal Property Replacement Tax Revenues to be allocated and paid to the Board in each year directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. As long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be (i) necessitated by changes in State law or procedures with respect to the allocation and distribution of the Personal Property Replacement Tax Revenues or (ii) necessary in connection with the issuance of Additional Bonds; provided that no such modification or amendment shall provide for the deposit with the Escrow Agent of less than all of the Personal Property Replacement Tax Revenues to be allocated and paid to the Board during the Year.

Pursuant to the Act, the Board covenants, so long as there are any Outstanding Bonds, to provide for, collect and apply the Pledged Revenues to the payment of the Bonds and the provision of not less than an additional .25 times debt service on the Bonds.

Covenants Regarding Pledged Taxes

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. So long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be necessitated by changes in State law or procedures or rules, regulations or procedures thereunder with respect to the collection and distribution of ad valorem property taxes; provided, that no such modification or amendment may provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year.

As described in the Indenture, the Board will direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement will be filed with (i) the County Clerks, in a timely manner to effect such abatement and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

As long as there are any Outstanding Bonds, the Board and its officers will comply with all present and future applicable laws in order to assure that the Pledged Taxes may be levied and extended and collected and deposited to the Pledged Taxes Account as described above.

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

Accounts and Reports

The Board will keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries will be made of its transactions relating to the Pledged Revenues, the Pledged Taxes and the Funds, Accounts and Sub-Accounts established by the Indenture, and which, together with all other books and financial records of the Board, will at all reasonable times be available for the inspection of the Trustee, the Bond Insurer and the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds or their representatives duly authorized in writing.

Tax Covenants

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

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

Events of Default and Remedies

Events of Default

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

- (1) if a default occurs in the due and punctual payment of interest on any Bond, when and as such interest becomes due and payable;

(2) if a default occurs in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same becomes due and payable, whether at maturity or by call for redemption or otherwise;

(3) if a default occurs in the due and punctual payment of the purchase price of any Tendered Bond when and as the same becomes due and payable;

(4) if a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions contained in the Indenture or in the Bonds, and such default continues for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds; or

(5) if the Board files a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

A payment by the Bond Insurer pursuant to the Bond Insurance Policy will not be considered a payment by the Board for the purposes described in paragraphs (1) through (4) above.

Proceedings Brought By Trustee

There is no provision for the acceleration of the maturity of the Bonds if an Event of Default occurs under the Indenture.

If an Event of Default happens and is not remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction will proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Bonds or the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for an accounting against the Board as if the Board were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, will deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture or enforce any of the rights or interests of the Owners of the Bonds under the Bonds or the Indenture.

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

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

The Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding may direct the time, method and place (subject to the preceding paragraph) of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee will have the right to decline to follow any such direction if the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith determines that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee has the power, but unless requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, is under no obligation to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

Application of Trust Estate and Other Moneys on Default

During the continuance of an Event of Default, the Trustee will apply all moneys, securities, funds, Pledged Revenues and Pledged Taxes and the income therefrom (other than amounts paid under the Bond Insurance Policy, which will be applied only to pay scheduled principal of and interest on the Bonds) as follows and in the following order:

- (1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it; and
- (2) to the payment of the principal of, Redemption Price and interest on the Bonds then due, as follows:

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

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

- (3) to the payment of the Swap Payments.

If and whenever all overdue installments of principal and Redemption Price of and interest on, Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on, all Bonds held by or for the account of the Board, and any and all unpaid Swap Payments, or provision satisfactory to the Trustee is made for such payments, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor and all amounts owed to the Bond Insurer are paid in full, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee

and the Owners will be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Whenever moneys are to be applied as provided above, the Trustee may, in its discretion, establish and maintain a reserve for future fees and expenses, and may apply moneys to be distributed at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix a date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates, and for which moneys are available, shall cease to accrue. The Trustee shall also select a Record Date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such Record Date and payment date, and shall not be required to make payment to the Owner of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Rights of Bond Insurer to Direct Remedies

Notwithstanding anything in the Indenture to the contrary, so long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer, acting alone, will (i) have the right to direct all remedies granted hereunder upon the occurrence of an Event of Default, (ii) will be recognized as the registered owner of each Insured Bond for the purposes of exercising all such rights and privileges available to the Owners of such Insured Bonds, and the Bond Insurer will have the right to institute any suit, action, or proceeding at law or in equity under the same terms as an Owner of an Insured Bond in accordance with the Indenture.

Notwithstanding anything in the Indenture to the contrary, the Trustee on behalf of the Owners of Bonds shall have the absolute right at all times to enforce the provisions of the Liquidity Facility and the Bond Insurance Policy without any requirement of consent from either the Bank or the Bond Insurer.

Restrictions on Bondholders' Actions

No Owner of any Bond will have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner has previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding have filed a written request with the Trustee, and have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of the State or to institute such suit or proceeding in its own name, and unless such Owners will have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds will have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

Nothing in the Indenture or in the Bonds contained shall affect or impair the general obligation, full faith and credit promise of the Board to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action of any Owner to enforce such payment of its Bond from the sources provided in the Indenture.

Remedies Conferred By The Debt Reform Act

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

No Remedy Exclusive

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each remedy will be cumulative and will be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

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

Waiver

The Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on, or principal or Redemption Price of any of the Bonds when due. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

Provisions Relating to Trustee

Acceptance By The Trustee. The Trustee accepts and agrees to the trusts hereby created, but only upon the additional terms set forth in the Indenture, to all of which the Board agrees and the respective Owners of the Bonds, by their purchase and acceptance thereof, agree. Except during the continuance of an Event of Default, the Trustee undertakes such duties and only such duties as are specifically set forth in the Indenture. The Trustee shall have no lien or security interest in and to the proceeds of the Liquidity Facility or the Bond Insurance Policy, or the proceeds of remarketed Bonds, for the purpose of paying the fees or expenses of the Trustee and shall not use such amounts for such purpose. The Trustee shall draw on the Liquidity Facility and make claims against the Bond Insurance Policy, when required, whether or not its fees and expenses have been fully paid. Notwithstanding any provision of the Indenture to the contrary, the Trustee may not resign or be removed until a successor Trustee shall have been appointed as herein provided, and the Liquidity Facility and the Bond Insurance Policy duly and effectively transferred to such successor Trustee.

Resignation and Removal of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice

to the Board, all Owners of the Bonds, the other Fiduciaries, the Remarketing Agent, the Auction Agent, the Bank and the Bond Insurer, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below, in which event such resignation will take effect immediately on the appointment of such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee has not been appointed within a period of 60 days following the giving of notice, then the Trustee is authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below.

The Trustee may be removed at any time by an instrument in writing approved by and executed in the name of the Board and delivered to the Trustee; provided, however, that if an Event of Default has occurred and is continuing, the Trustee may be so removed by the Board only with the written concurrence of the Owners of a majority in aggregate principal amount of Bonds then Outstanding. The Trustee may be removed at any time by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board, with Bond Insurer Approval, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the Board.

Appointment of Successor Trustee. In case at any time the Trustee resigns or is removed or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, is appointed, or if any public officer or court takes charge or control of the Trustee, or of its property or affairs, the Board will appoint a successor Trustee. The Board will cause notice of any such appointment made by it to be mailed to all Owners of the Bonds and the Bond Insurer.

If no appointment of a Trustee is made by the Board within 60 days following such resignation or removal as described in the foregoing paragraph, the Trustee or the Owner of any Outstanding Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any successor Trustee appointed under the provisions of the Indenture must be a bank or trust company or national banking association, doing business and having its principal corporate trust office in the State of Illinois, and having capital stock and surplus aggregating at least \$15,000,000, or a wholly owned subsidiary of such an entity, if there be such a bank, trust company, national banking association or subsidiary willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners. The Board and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures for any one or more of the following purposes:

- (i) to impose additional covenants or agreements to be observed by the Board;
- (ii) to impose other limitations or restrictions upon the Board;
- (iii) to surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;
- (iv) to confirm, as further assurance, any pledge of or lien upon the Pledged Revenues, the Pledged Taxes or any other moneys, securities or funds;

(v) to make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds as authorized therein;

(vi) to cure any ambiguity, omission or defect in the Indenture;

(vii) to provide for the appointment of a successor Securities Depository;

(viii) to provide for the appointment of any successor Fiduciary;

(ix) to provide for certificated Bonds;

(x) to implement a conversion of the interest rate on all or any portion of the Bonds to a Fixed Rate, an ARS Rate or a different Short Rate, all as provided herein, including, but not limited to, modifying, amending or supplementing the form of Bond to reflect, among other things, a change in the designated title of the Bonds, the fixing of an annual rate of interest, the termination of the rights of any Owner of Bonds to tender such Bonds for purchase, and the fact that the purchase price of, or interest on, the Bonds is no longer payable out of moneys drawn under the Liquidity Facility;

(xi) to amend the Auction Procedures in effect from time to time as authorized by the Indenture;

(xii) to evidence or give effect to, or facilitate, the delivery and administration under the Indenture of a Substitute Liquidity Agreement and a Substitute Liquidity Facility, including, but not limited to, such provisions as are necessary to permit the issuer of such a Substitute Liquidity Agreement to provide credit support relating to payment of principal of and interest on the Bonds and a separate issuer of another Substitute Liquidity Agreement to provide liquidity support relating to payment of the purchase price of Bonds delivered or deemed delivered hereunder for purchase;

(xiii) to evidence or give effect to, or facilitate, the delivery and administration under the Indenture of a Substitute Bond Insurance Policy;

(xiv) to evidence or give effect to or facilitate the delivery and administration under the Indenture of a letter of credit, a line of credit, a bond purchase agreement, an insurance policy or any other credit or liquidity device to secure the Bonds;

(xv) to secure or maintain ratings from any Rating Service in the highest short-term or commercial paper debt rating category, and the highest long-term debt rating category (each without giving effect to numeric or other qualifiers), of such Rating Service which are available for the Bonds, whether or not a Liquidity Facility secures the Bonds, which changes will not restrict, limit or reduce the obligation of the Board to pay the principal of, premium, if any, and interest on the Bonds as provided in the Indenture or otherwise adversely affect the Owners of the Bonds under the Indenture;

(xvi) to effect a change in the optional redemption schedule for Bonds in a Fixed Mode pursuant to the Indenture, or to effect a change in redemption price in accordance with the Indenture; and

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

Supplemental Indentures Effective upon Consent of Owners. Any Supplemental Indenture not effective in accordance with the foregoing provisions will take effect only if permitted and approved and in the manner described below under the heading “Amendments – Consent of Owners.”

Consent of Bond Insurer. As long as (i) a Bond Insurance Policy is in effect, or (ii) the Bond Insurer Obligations remain unsatisfied, any Supplemental Indenture not effective as described under “Supplemental Indentures Not Requiring Consent of Owners” above will not become effective unless and until the Trustee has received Bond Insurer Approval. In this regard, the Trustee, at the Board’s direction, will cause notice of the proposed execution of any such Supplemental Indenture, together with a copy of the proposed Supplemental Indenture, to be mailed to the Bond Insurer at least fifteen Business Days prior to the proposed date of execution and delivery of such Supplemental Indenture. The Bond Insurer will be deemed to have denied consent to the execution and delivery of such Supplemental Indenture if the Trustee does not receive a letter of approval thereto signed by or on behalf of the Bank on or before the fifteenth Business Day after the mailing of said notice.

Amendments

General. Except for Supplemental Indentures not requiring consent of the Owners as described above, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding and the Bond Insurer will each have the right, from time to time, to (i) consent to and approve the execution by the Board and the Trustee of such other Supplemental Indenture or Indentures as may be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, or (ii) waive or consent to the taking by the Board of any action prohibited, or the omission by the Board of the taking of any action required, by any of the provisions of the Indenture or of any Supplemental Indenture; provided, however, that nothing in the Indenture permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, without the consent of the Owner of such Bond, or (b) a reduction in the amount of, or extension of the time of, any payment required by any sinking fund applicable to any Bonds without the consent of the Owners of all the Bonds which would be affected by the action to be taken, or (c) except for the pledge of the Pledged Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to or on a parity with the lien of the Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, or (d) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, or (e) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (f) the loss of the exclusion from federal gross income of the Owners of the interest paid on the Bonds held by a non-consenting Bondholder to the extent otherwise afforded under the Code and Regulations.

Consent of Owners and Bond Insurer. The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the Owners of the required aggregate

principal amount of Outstanding Bonds and the Bond Insurer, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) the notice described below has been mailed. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor whether or not such subsequent Owner has notice thereof; provided, however, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement described below is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The Trustee will give notice by mail to the Owners of the Bonds that the Supplemental Indenture has been consented to by the Owners of the required aggregate principal amount of Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding and the Bond Insurer, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required.

Defeasance

If the Board pays or causes to be paid or there is otherwise paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, and satisfies in full the Bond Insurer Obligations and the Bank Obligations, then the pledge of the Trust Estate pledged under the Indenture and all covenants, agreements and other obligations of the Board to the Owners, the Bond Insurer and the Bank will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, will provide an accounting of the assets managed by the Trustee to be prepared and filed with the Board for any year or part thereof requested, and will execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent will pay over or deliver to the Board all moneys and securities held by it pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption or the satisfaction of Bond Insurer Obligations or Bank Obligations. If the Board pays or causes to be paid, or there is otherwise paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion will be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture and satisfies in full the Bond Insurer Obligations and the Bank Obligations specifically related thereto, such Bonds, Bond Insurer Obligations and Bank Obligations will cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Board to the Owners of such Bonds, the Bond Insurer and the Bank and to the Trustee will thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date will be deemed to have been paid as described in the preceding paragraph if the Board has delivered to or deposited with the

Trustee (a) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (b) irrevocable instructions to publish or mail the required notice of redemption of any Bonds so to be redeemed, (c) either moneys in an amount which will be sufficient, or Defeasance Obligations the principal of and the interest on which, in the opinion of a nationally recognized firm of independent public accountants, without further reinvestment, when due will provide moneys which will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (d) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds.

THE DEFEASANCE OBLIGATIONS (OR ANY PORTION THEREOF) HELD FOR THE PAYMENT OF THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON SAID BONDS AS DESCRIBED IN THE PRECEDING PARAGRAPH MAY NOT BE SOLD, REDEEMED, INVESTED, REINVESTED OR REMOVED FROM THE LIEN OF THE INDENTURE IN ANY MANNER OR OTHER DEFEASANCE OBLIGATIONS SUBSTITUTED THEREFOR (ANY SUCH DIRECTION TO SELL, REDEEM, INVEST, REINVEST, REMOVE OR SUBSTITUTE TO BE REFERRED TO AS A "SUBSEQUENT ACTION") UNLESS PRIOR TO THE TAKING OF SUCH SUBSEQUENT ACTION, THE TRUSTEE HAS RECEIVED THE FOLLOWING: (I) EITHER (A) A CERTIFIED COPY OF THE PROCEEDINGS OF THE BOARD AUTHORIZING THE SUBSEQUENT ACTION, OR (B) AN OPINION OF COUNSEL FOR THE BOARD TO THE EFFECT THAT SUCH SUBSEQUENT ACTION HAS BEEN DULY AUTHORIZED BY ALL NECESSARY ACTION ON THE PART OF THE BOARD; (II) AN OPINION FROM A NATIONALLY RECOGNIZED FIRM OF INDEPENDENT PUBLIC ACCOUNTANTS TO THE EFFECT THAT THE DEFEASANCE OBLIGATIONS AND CASH AVAILABLE OR TO BE AVAILABLE FOR PAYMENT OF THE BONDS AFTER THE TAKING OF THE SUBSEQUENT ACTION WILL REMAIN SUFFICIENT TO PAY, WITHOUT ANY FURTHER REINVESTMENT THEREOF, THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON SAID BONDS AT OR PRIOR TO THEIR MATURITY IN THE MANNER PROVIDED IN THE PRECEDING PARAGRAPH; (III) AN OPINION OF BOND COUNSEL TO THE EFFECT THAT THE SUBSEQUENT ACTION WILL NOT ADVERSELY AFFECT ANY EXEMPTION FROM FEDERAL INCOME TAX OF THE INTEREST PAID ON THE BONDS TO WHICH SUCH BONDS ARE OTHERWISE ENTITLED; AND (IV) SUCH OTHER DOCUMENTS AND SHOWINGS AS THE TRUSTEE MAY REASONABLY REQUIRE.

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APPENDIX C **INFORMATION CONCERNING PERSONAL PROPERTY REPLACEMENT TAX REVENUES**

Description of Personal Property Replacement Taxes. Through December 31, 1997, the Personal Property Replacement Taxes were comprised of three taxes as described in the following table:

<u>TYPE OF TAX</u>	<u>RATE</u> ⁽¹⁾
Additional income tax on corporations	2.5% of net income ⁽²⁾
Additional income tax on partnerships, trusts and subchapter S corporations	1.5% of net income ⁽²⁾
Tax on invested capital for public utilities providing gas, telecommunications, electric and water services	0.8% of invested capital ⁽³⁾

(1) Beginning on July 1, 1984 certain taxpayers who pay Personal Property Replacement Taxes were allowed to claim a credit of 0.5 percent of the basis of certain qualified property placed in service during that year. On July 1, 1986, the credit was increased to a maximum of 1 percent for businesses whose employment in the State of Illinois (the "State") increases. This credit expired on December 31, 2003.

(2) Determined in accordance with the Illinois Income Tax Act.

(3) Determined in accordance with applicable State taxes on the gross receipts of such public utilities. See "– Recent Changes in Personal Property Replacement Taxes" below for a discussion of enacted amendments relating to the tax on invested capital of telecommunications and electric utilities.

The income tax component of the Personal Property Replacement Taxes is paid on an estimated basis with the corporation's regular state income tax quarterly payments. A final return is due after the end of the corporation's taxable year. The tax on invested capital of utilities applied to business entities that sell or provide electric, gas, water or telecommunications services in the State, except for municipal and cooperative corporations. The invested capital tax is paid with estimated payments by the fifteenth day of March, June, September and December, with a final return due by the fifteenth day of March following the tax year.

Changes in Personal Property Replacement Taxes. Effective January 1, 1998, Public Act 90-154 repealed the tax on the invested capital on telecommunications utilities and provides instead for the imposition of an infrastructure maintenance fee upon all telecommunications retailers in the State. This fee imposed is equal to .5% of all gross charges imposed by the retailer for telecommunications, other than wireless telecommunications, originating or received in the State. This fee is to be paid monthly by telecommunications retailers to the State. Public Act 90-154 states its intent that this statewide infrastructure maintenance fee will be a replacement for the tax currently imposed on the invested capital of telecommunications utilities.

Effective January 1, 1998, Public Act 90-561 repealed the tax on the invested capital of electric utilities (other than electric co-operatives) and provides instead for the imposition of a tax on the distribution of electricity. This tax is imposed on electric utilities on a per kilowatt basis, with the rates varying with the amount of electricity distributed. This tax is to be paid quarterly by electric utilities to

the State. In any given year, the total statewide collection of the tax cannot exceed \$145.3 million plus the lesser of CPI and 5%. Public Act 90-561 states its intent that this new tax on the distribution of electricity will be a replacement for the tax currently imposed on invested capital of electric utilities.

The telecommunications infrastructure maintenance fee and the tax on the distribution of electricity described above are each to be collected and allocated to the Board and other taxing districts in accordance with existing allocation formulas for the Personal Property Replacement Taxes. See “SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Allocation and Payment.”

Future Legislative Action. Set forth above and under “SECURITY FOR THE BONDS – Personal Property Replacement Taxes” is a description of the existing provisions of the State Revenue Sharing Act relating to the application, collection, allocation, appropriation and payment of the Personal Property Replacement Taxes and of enacted amendments relating to the invested capital tax on telecommunications and electric utilities. These provisions could be further amended, modified or repealed by future action of the Illinois General Assembly. Such amendment, modification or repeal could have a material effect on the amount and/or the timing of receipt of the Personal Property Replacement Taxes collected and allocated by the State or on the amount and/or the timing of receipt of the Personal Property Replacement Taxes to be received by the Board and deposited with the Escrow Agent. See “SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Prior Statutory Claims.”

Personal Property Replacement Tax Statistical Tables

The following is the schedule of Personal Property Replacement Taxes allocated by the State (including allocations to the Board) for the calendar years 2001 through June 30, 2007. For a discussion of the prior statutory claim on Personal Property Replacement Taxes, see “SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Series 2007B Bonds – Prior Statutory Claims.”

Statewide Replacement Tax Data ⁽¹⁾

<u>Calendar Year</u>	<u>Invested Capital Tax Collections</u>	<u>Business Income Tax Collections (Net of Refunds)</u>	<u>Net Adjustments</u> ⁽²⁾	<u>Total Replacement Tax Allocations to Local Govts.</u>	<u>Board Percent</u> ⁽³⁾
2001	\$253,904,237	\$682,900,875	\$26,877,270	\$ 963,682,382	14.0%
2002	207,501,611	568,278,611	(5,993,471)	769,786,751	14.0%
2003	199,943,717	579,537,177	(1,991,328)	777,479,566	14.0%
2004	227,782,071	601,155,429	41,328,938	870,266,438	14.0%
2005	213,905,309	870,816,416	111,548,531	1,196,270,258	14.0%
2006 ⁽⁴⁾	170,054,342	778,958,695	43,752,039	992,765,076	14.0%

⁽¹⁾ Source: Illinois Department of Revenue

⁽²⁾ Consists of adjustments for administrative rules, interest earned on deposits, interfund transfers, timing of collections and payments and related items.

⁽³⁾ Percentage rounded.

⁽⁴⁾ Replacement tax collection for January 1, 2006 – August 31, 2006 only.

Board Replacement Tax Data ⁽¹⁾

<u>Calendar Year</u>	<u>Statutory Claims ⁽¹⁾</u>			<u>Remainder after Allocations for Statutory Claims</u>	<u>Pro-Forma Pledged Revenues ⁽⁴⁾</u>	<u>Fiscal Year Recorded Revenues</u>
	<u>Allocations To Board</u>	<u>Allocations for Prior Debt Service ⁽²⁾</u>	<u>Allocations for Pension Obligations ⁽³⁾</u>			
2001	\$134,934,126	--	--	\$134,934,126	\$134,934,126	\$137,744,000
2002	107,800,973	--	--	107,800,973	107,800,973	114,313,000
2003	108,879,677	--	--	108,879,677	108,879,677	105,959,557
2004	121,872,155	--	--	121,872,155	121,872,155	120,427,424
2005	167,526,744	--	--	167,526,744	167,526,744	145,724,052
2006	176,409,098	--	--	176,409,098	176,409,098	184,699,266

⁽¹⁾ Source: Board of Education of the City of Chicago.

⁽²⁾ All Board's debt for which there was a replacement tax obligation was retired by the end of 1995.

⁽³⁾ The amount of the Statutory Claim for pension and retirement purposes has varied over the past 10 years, primarily as a result of (a) increases in required employer contributions funded from property taxes as a consequence of increased payroll and employee contributions (1985-1990 and 1994-1995), (b) a temporary suspension of the statutory requirement that property taxes be applied to pension and retirement purposes (1991-1993), and (c) the suspension of the statutory requirement that, property taxes be applied to pension and retirement purposes (1996 and all years thereafter).

⁽⁴⁾ Reflects reductions to pay applicable Statutory Claims. All Statutory Claims with respect to debt service have been paid and, under the Statue Revenue Sharing Act, no future Statutory Claims with respect to debt service will arise or need to be paid.

Following is the schedule of Personal Property Replacement Taxes received by the Board from January 2001 through August 31, 2006.

Monthly Summary of the Total Allocations to the Board of Education ⁽¹⁾

<u>Calendar Year</u>	<u>January</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>July</u>	<u>August</u>	<u>October</u>	<u>December</u>	<u>Total</u>
2001	\$19,256,949	\$9,853,297	\$25,603,017	\$18,352,614	\$25,636,258	\$3,148,346	\$24,440,723	\$8,642,922	\$134,934,126
2002	16,842,147	6,478,868	25,630,253	12,181,929	16,948,258	2,701,807	19,106,650	7,911,061	107,800,973
2003	14,730,281	6,208,549	25,757,619	12,117,348	17,426,241	1,749,411	16,757,860	14,132,368	108,879,677
2004	19,906,464	8,669,066	26,475,210	13,494,987	19,241,877	8,379,867	19,602,544	16,676,184	132,446,209
2005	21,166,525	11,653,412	33,977,017	18,816,369	26,026,179	20,285,121	27,393,274	8,208,848	167,526,745
2006	24,520,445	8,553,752	38,608,787	24,789,508	32,340,532	10,213,846	28,762,938	8,619,290	176,409,098

⁽¹⁾ Source: Board of Education of the City of Chicago

APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

September 5, 2007

The Board of Education of the City of Chicago
Chicago, Illinois

Dear Members:

We have examined a record of proceedings relating to the issuance of \$81,785,000 principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-1 (the "Series 2007A-1 Bonds"); \$81,000,000 principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-2 (the "Series 2007A-2 Bonds") and \$100,000,000 principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A-3 (the "Series 2007A-3 Bonds" and together with the Series 2007A-1 Bonds, and the Series 2007A-2 Bonds, the "Bonds") of the Board of Education of the City of Chicago (the "Board"). The Series 2007A-1 Bonds and the Series 2007A-2 Bonds are authorized and issued pursuant to the School Code, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, and Resolution No. 06-0628-RS78 adopted by the Board on June 28, 2006 (the "2006 Authorization") as supplemented by Resolution No. 06-0927-RS4 adopted by the Board on September 27, 2006 (the "2006 Bond Resolution") and Resolution No. 07-0725-RS5, adopted by the Board on July 25, 2007 (the "2007 Supplemental Resolution"). The Series 2007A-3 Bonds are authorized and issued pursuant to the School Code and the Local Government Debt Reform Act and Resolution No. 98-0826-RS7 adopted by the Board on August 26, 1998 (the "1998 Authorization") as supplemented by Resolution No. 05-0622-RS76 adopted by the Board on June 22, 2005 (the "2005 Bond Resolution") and the 2007 Supplemental Resolution. The Bonds are issued and secured under a Trust Indenture dated as of September 1, 2007 (the "Indenture") by and between the Board and Amalgamated Bank of Chicago, as trustee (the "Trustee").

The 1998 Authorization, the 2006 Authorization, the 2005 Bond Resolution, the 2006 Bond Resolution and the 2007 Supplemental Resolution are herein collectively called the "Bond Resolutions". Terms used herein, which are defined in the Indenture, shall have the meanings set forth in the Indenture unless otherwise defined herein.

The Bonds are issued as "alternate bonds" under the Local Government Debt Reform Act for the purpose of refunding bonds of the Board that were issued for the purpose of raising moneys to construct, acquire and equip school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the "School District").

The Board and the City of Chicago (the "City") have entered into an Intergovernmental Agreement dated October 1, 1997 (the "Intergovernmental Agreement") pursuant to which the City has levied ad valorem taxes against all taxable property in the City without limitation as to rate or amount for the purpose of providing Intergovernmental Agreement Revenues to pay the principal of and interest on certain alternate bonds of the Board, including the Bonds.

The Bonds are issuable only as registered bonds in the authorized denominations referred to in the Indenture. The Bonds delivered upon original issuance are dated as of September 5, 2007. The Bonds bear interest from their date at a Weekly Rate, Auction Rate, Flexible Rate, Term Rate or Fixed Rate from time to time under the terms and conditions set forth in the Indenture. The Series 2007A-1 Bonds mature on December 1, 2028, the Series 2007A-2 Bonds mature on December 1, 2028, and the

Series 2007A-3 Bonds mature on December 1, 2030. The Bonds are subject to optional and mandatory purchase and to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Indenture.

We are of the opinion that:

1. The Board had and has the right and power to adopt the Bond Resolutions, to enter into the Indenture and to authorize the Bonds. Each Bond Resolution has been duly adopted, is presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Board, is presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

3. The Bonds have been duly authorized and issued in accordance with the Bond Resolutions and the Indenture, are valid and legally binding general obligations of the Board, are entitled to the benefits and security of the applicable Bond Resolutions and the Indenture and are enforceable in accordance with their terms.

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

5. The Indenture creates the valid pledge which it purports to create of the Trust Estate, consisting of the Pledged Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged Revenues consist of the Intergovernmental Agreement Revenues and the Pledged PPRT Revenues. The Pledged PPRT Revenues consist of the Personal Property Replacement Tax Revenues received by the Board in any year from the Personal Property Tax Replacement Fund of the State of Illinois pursuant to Section 12 of the State Revenue Sharing Act, subject to (i) the prior use of Personal Property Replacement Tax Revenues for the payment of certain pension and retirement obligations constituting "Statutory Claims" as defined in the Indenture; and (ii) the prior and priority pledge of the Personal Property Replacement Tax Revenues to the payment of the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 and the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, of the Board. The pledge of the Pledged PPRT Revenues is on a parity with the pledge of Personal Property Replacement Tax Revenues as security for the payment of certain other outstanding alternate bonds of the Board. The pledge of the Intergovernmental Agreement Revenues is on a parity with the pledge of the Intergovernmental Agreement Revenues as security for the payment of certain other outstanding alternate bonds of the Bonds. The Pledged Taxes consist of the ad valorem property taxes levied pursuant to the 2005 Bond Resolution for the payment of the Series 2007A-3 Bonds and pursuant to the 2006 Bond Resolution for the payment of the Series 2007A-1 Bonds and the Series 2007A-2 Bonds. The Board has taken all necessary action to cause the County Collectors of the Counties of Cook and DuPage to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

6. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. The Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on

the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The Board has covenanted in the Indenture to comply with these requirements.

Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the Bond Resolutions and the Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought.

Very truly yours,

LG/be

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APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

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

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

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

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

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

E-1

Authorized Officer of Insurance Trustee

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APPENDIX F

AUCTION PROCEDURES

Both the Definitions in Article I and the Auction Procedures in Article II are subject to modification or amendment pursuant to Schedule I. In the event of any conflict between Article I or Article II and Schedule I, Schedule I shall prevail.

ARTICLE I

Definitions

In addition to the words and terms otherwise defined in the Authorizing Document, the following words and terms as used in this Appendix (hereinafter “this Appendix”) and elsewhere in the Authorizing Document have the following meanings with respect to Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“All Hold Rate” has the meaning set forth in Schedule I.

“ARS Conversion Date” means with respect to Bonds, the date on which the Bonds of such Series convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

“ARS Rate Period” means, for each Series of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

“Auction Agreement” means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means with respect to any Series of Bonds:

(a) Daily Auction Period. If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) Flexible Auction Period. If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) Other Auction Periods. If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date)

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Series of Bonds is set forth in Schedule I.

“Auction Desk” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“Auction Period” means with respect to each Series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven-day Auction Period.* With respect to a Series of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(A) When Auctions Occur on this day	(B) Auction Period Generally Begins this day	(C) Auction Periods Generally End this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a Series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) *35-day Auction Period.* With respect to a Series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) *Three-month Auction Period.* With respect to a Series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a Series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is

followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“Auction Period Rate” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Article II of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

“Auction Procedures” means the procedures for conducting Auctions for Bonds during an ARS Rate Period set forth in this Appendix.

“Auction Rate” means for each Series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

“Authorized Denominations” means \$5,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

“Authorizing Document” has the meaning set forth in Schedule I.

“Available Bonds” means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) (y) or (b) of Article II (B) (i) of this Appendix.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Bonds” has the meaning set forth in Schedule I.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Corporation. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Corporation and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from time to time be amended or supplemented.

“Broker-Dealer Deadline” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker- Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“Business Day” in addition to any other definition of “Business Day” included in the Authorizing Document, while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

“Clerical Error” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker Dealer Deadline or the Submission Deadline, as applicable.

“Conversion Date” means the date on which any Series of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

“Electronic Means” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“Error Correction Deadline” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Existing Owner” means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Flexible Auction Period” means with respect to a Series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next

succeeding day which is followed by a Business Day, (ii) in the case of a Series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series of Bonds.

“Hold Order” means an Order to hold the Bonds as provided in subsection (a) (x) of Article II (B) (i) of this Appendix or such an Order deemed to have been submitted as provided in subsection (ii) of Article II (I) of this Appendix.

“Index” has the meaning set forth in Schedule I.

“Initial Period” has the meaning set forth in Schedule 1.

“Interest Payment Date” with respect to Bonds of a Series bearing interest at Auction Period Rates, means, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for such Series of Bonds as set forth in Schedule I and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

“Maximum Interest Rate” has the meaning set forth in Schedule I.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker- Dealer acting on behalf of its customer as a Potential Owner.

“Record Date” means, notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“Schedule I” means Schedule I to this Appendix.

“Securities Depository” means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation.

“Sell Order” has the meaning specified in subsection (a) (z) of Article II (B) (i) of this Appendix.

“Submission Deadline” means, unless changed by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Corporation pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by the Trustee or the Corporation. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m. New York City time.

“Submitted Bid” has the meaning specified in Article II (I) of this Appendix.

“Submitted Hold Order” has the meaning specified in Article II (I) of this Appendix.

“Submitted Order” has the meaning specified in Article II (I) of this Appendix.

“Submitted Sell Order” has the meaning specified in Article II (I) of this Appendix.

“Sufficient Clearing Bids” means for each Series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“Units” has the meaning set forth in Article II (c) (i) (e) of this Appendix.

“Winning Bid Rate” means for each Series of Bonds, the lowest rate specified in any Submitted Bid of such Series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Series.

ARTICLE II

Auction Procedures

Auction Procedures.

(A) General. During any Auction Period, the ARS Bonds shall bear interest at the ARS Rate. Unless otherwise provided herein, the provisions of this section shall apply separately to each sub-series of ARS Bonds.

(B) Orders By Existing Owners and Potential Owners.

(i) Prior to the Broker-Dealer Deadline on each Auction Date:

(a) each Existing Owner may submit to a Broker Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker Dealer, information with respect to each Sub-series of ARS Bonds as to:

(x) the principal amount of the ARS Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period;

(y) the principal amount of the ARS Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Bid (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (ii)(a)(x) of this Section); and/or

(z) the principal amount of the ARS Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate determined for the next succeeding Auction Period; and

(b) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of ARS Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures, an Order containing the information referred to in clause (a)(x) above is herein referred to as a “Hold Order,” an Order containing the information referred to in clause (a)(y) or (b) above is herein referred to as a “Bid,” and an Order containing the information referred to in clause (a)(z) above is herein referred to as a “Sell Order.”

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or which does not specify a specific interest rate. “Auction Desk” means the business unit of a Broker-Dealer that fulfils the responsibilities of a Broker-Dealer, including soliciting Bids for Bonds while they bear interest at the ARS Rate.

(ii) (a) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(x) the principal amount of the ARS Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(y) such principal amount or a lesser principal amount of the ARS Bonds to be determined as described in subsection (i)(e) of Section J hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(z) a lesser principal amount of the ARS Bonds to be determined as provided in subsection (ii)d of Section J herein if such specified rate shall be higher than the Maximum Interest Rate and Sufficient Clearing Bids do not exist.

(b) A Sell Order by an Existing Owner shall constitute an offer to sell:

(y) the principal amount of the ARS Bonds specified in such Sell Order; or

(z) such principal amount or a lesser principal amount of the ARS Bonds as described in subsection (ii)(d) of Section J hereof if Sufficient Clearing Bids do not exist.

(c) A Bid by a Potential Owner shall constitute an offer to purchase:

(y) the principal amount of the ARS Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(z) such principal amount or a lesser principal amount of the ARS Bonds as determined in subsection (i)(f) of Section J herein if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(iii) Anything herein to the contrary notwithstanding:

(a) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(b) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the

Broker-Dealer Deadline, all such Orders shall be irrevocable notwithstanding Section C(iii), except as provided in Section C(iv); and

(c) for purposes of any Auction other than during a Daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a Daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

(C) *Submission Of Orders By Broker Dealers To Auction Agent.*

(i) Each Broker Dealer shall submit to the Auction Agent in writing or by such other electronic means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker Dealer in accordance with Section (B) above and specifying with respect to each Order or aggregation of Orders pursuant to paragraph (ii) below:

(a) the name of the Broker-Dealer;

(b) the number of Bidders placing Orders, if requested by the Auction Agent;

(c) with respect to each Sub-series of ARS Bonds, the aggregate number of Units of ARS Bonds, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination;

(d) to the extent that such Bidder is an Existing Owner:

(A) with respect to each Sub-series of ARS Bonds, the number of Units of ARS Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) with respect to each Sub-series of ARS Bonds, the number of Units of ARS Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) with respect to each Sub-series of ARS Bonds the number of Units of ARS Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(e) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(ii) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders

of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same when rounded pursuant to the provisions of Section (D)(ii) below.

(iii) None of the Board and the Bond Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(iv) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(v) Until the Submission Deadline, a Broker-Dealer may for any reason withdraw or modify any Order for its own account previously submitted to the Auction Agent.

(vi) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(a) submit to the Auction Agent an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer for its own account, in either case prior to the Submission Deadline (provided that the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(b) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section (C)(iv) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section (C)(iv) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that, (A) in the case of a newly submitted Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner prior to the Submission Deadline or generated internally by such Broker-Dealer for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner or a Potential Owner prior to the Submission Deadline or generated internally by such Broker-Dealer for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(vii) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall

communicate such awareness to the Auction Agent prior to the Error Correction Deadline. If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m., New York City time on the first day of the next applicable Auction Period with respect to such Auction at the Securities Depository, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in the ARS Bonds in such Auction of the corrected results.

(viii) Nothing contained herein shall preclude the Auction Agent from:

(a) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the ARS Bonds, provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers;

(b) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline, provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification; or

(c) contacting a Broker-Dealer who has submitted an Order that does not conform to the requirements of the Auction Procedures and requesting that such Broker-Dealer resubmit such Order so that it conforms to the requirements of the Auction Procedures.

(D) *Treatment of Orders by the Auction Agent.* Anything herein to the contrary notwithstanding:

(i) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order for a period of up to one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed such Broker-Dealer may correct and resubmit to the Auction Agent any such Order, that solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section (D) and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(iii) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid as follows:

(a) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record;

(A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Series subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the number of Units for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in paragraph (i) above; and

(D) the number of Units, if any, subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iv) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units equal to the excess of the number of Units for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of Units considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to paragraph (ii) above.

(E) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(F) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Bond Trustee, or the Board that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(G) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Bond Trustee, or the Board has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(H) If an Order or Orders covering all of the Bonds is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the

Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

(I) *Determination of ARS Rate.*

(i) If requested by the Bond Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Bond Trustee, if requested) the All Hold Rate, the ARS Index and, if the Maximum Interest Rate is not a fixed interest rate, the Maximum Interest Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(ii) Promptly after the Submission Deadline for each Sub-series of ARS Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(iii) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, a new Auction Period shall be established for the same length of time as the preceding Auction Period and the ARS Rate for the new Auction Period shall be the percentage of the ARS Index set forth in Schedule I attached hereto under “Determination of ARS Rate” if the ARS Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Bond Trustee, if at the time there is no Auction Agent) or if the ARS Index is not ascertainable on such date the ARS Rate for the new Auction Period shall be the same as the ARS Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, a new Auction Period shall be established for a period that ends on the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the ARS Rate for the period so extended shall be the percentage of the ARS Index set forth in Schedule I under “Determination of ARS Rate” if the ARS Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Bond Trustee, if at the time there is no Auction Agent) or if the ARS Index is not ascertainable on such date the ARS Rate for the new Auction Period shall be the same as the ARS Rate for the preceding Auction Period. In the event a new Auction Period is established as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined.

Notwithstanding the foregoing, new Auction Periods shall not total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, the ARS Rate shall be the Maximum Interest Rate.

(iv) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the ARS Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(v) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the ARS Rate shall be the Maximum Rate.

(J) *Allocation of ARS Bonds.*

(i) In the event of Sufficient Clearing Bids for a Sub-series of ARS Bonds, subject to the further provisions of subsections (iii) and (iv) below, Submitted Orders for such Bonds shall be accepted or rejected as follows in the following order of priority:

(a) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(b) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the ARS Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(c) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(d) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(e) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of ARS Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding ARS Bonds which are not the subject of Submitted Hold Orders described in paragraph (a) above or of Submitted Bids described in paragraph (c) or (d) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the number of Units of Outstanding ARS Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of ARS Bonds;

(f) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of ARS Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding ARS Bonds which are not the subject of Submitted Hold Orders described in paragraph (a) above or of Submitted Bids described in paragraphs (c), (d) or (e) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding ARS Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding ARS Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(g) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(ii) In the event there are not Sufficient Clearing Bids, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(a) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(b) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Bid;

(c) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Interest Rate, shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds that are the subject of such Submitted Bid;

(d) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Interest Rate, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of ARS Bonds obtained by multiplying (A) the aggregate number of Units of ARS Bonds subject to Submitted Bids described in paragraph (c) of this subsection (ii) by (B) a fraction the numerator of which shall be the number of Units of Outstanding ARS Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding ARS Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the ARS Bonds; and

(e) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Interest Rate shall be rejected.

(K) Notice of *ARS Rate*.

(i) With respect to each Sub-series of ARS Bonds, on each Auction Date, the Auction Agent shall notify by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following:

(a) the ARS Rate determined on such Auction Date for the succeeding Auction Period;

(b) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(c) if such Broker Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units of the ARS Bonds, if any, to be sold by such Existing Owner;

(c) if such Broker Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of the ARS Bonds, if any, to be purchased by such Potential Owner;

(e) if the aggregate principal amount of the ARS Bonds to be sold by all Existing Owners on whose behalf such Broker Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of the ARS Bonds to be purchased by all Potential Owners on whose behalf such Broker Dealer submitted a Bid, the name or names of one or more Broker Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of the ARS Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker Dealer submitted Bids; and

(f) the immediately succeeding Auction Date.

(ii) On each Auction Date, with respect to each Sub series of ARS Bonds for which an Auction was held on such Auction Date, each Broker Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker Dealer submitted an Order as to (A) the ARS Rates determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of such ARS Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the Purchase Date is not an Interest Payment Date for such ARS Bond) against receipt of such ARS Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker Dealer (or its Agent Member) through the Securities Depository the principal amount of such Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(iii) On each Auction Date, the Auction Agent shall give notice of the Auction Rate to the Bond Trustee and the Board by mutually acceptable Elections Means and the Bond Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

(L) *ARS Index.*

(i) If for any reason on any Auction Date the ARS Index shall not be determined as provided herein and in Schedule I, the ARS Index shall be the ARS Index for the Auction Period ending on such Auction Date.

(ii) The determination of the ARS Index as provided herein and in Schedule I shall be conclusive and binding upon the Board, the Trustee, the Broker Dealers, the Auction Agent and the Owners of the Bonds.

(M) *Conversions from ARS Rate Periods.* Subject to specific provisions of the Indenture, at the option of the Board, all or any portion of any Sub-series of ARS Bonds may be converted from an Auction Rate Mode to a Weekly Mode, Flexible Mode, Term Rate Mode or Fixed Mode, provided that after any partial conversion there are no less than \$10,000,000 of any Sub series of ARS Bonds outstanding, bearing interest at an ARS Rate, unless consented to by all Broker Dealers, as follows:

(i) If any of the ARS Bonds are in an Auction Period, the Adjustment Date to a Weekly Rate or a Flexible Rate will be the second regularly scheduled Interest Payment Date following the final Auction Date; provided, however, that in the case of a Special Auction Period, the Adjustment Date to a Weekly Rate or a Flexible Rate shall be the Interest Payment Date immediately following the last day of the Special Auction Period.

(ii) The Board will give written notice of any such conversion to the Bond Insurer, the Trustee, the Auction Agent, the Remarketing Agent, if any, and the Broker Dealer not less than five (5) Business Days prior to the date on which the Trustee is required to notify the Owners of the conversion pursuant to Section 4.1(E) of the Indenture. Such notice shall be delivered in accordance with Section 4.1(B) of the Indenture. Together with such notice, the Board will file with the Bond Insurer and the Trustee an Opinion of Bond Counsel to the effect that the conversion of the ARS Bonds to a Weekly Mode or a Flexible Mode, including the assignment of maturity dates and sinking fund payment dates, will not adversely affect the validity of the ARS Bonds or any exemption from federal income taxation to which interest on the ARS Bonds would otherwise be entitled. No change to a Weekly Mode or a Flexible Mode will become effective unless the Board will also file with the Bond Insurer and the Trustee such an opinion dated the applicable Adjustment Date.

(iii) If, on an Adjustment Date from the Auction Rate Mode, any condition precedent to such conversion required under the Indenture is not satisfied, the Trustee will give written notice by first class mail postage prepaid as soon as practicable and in any event not later than the next succeeding Business Day to the ARS Owners, the Board and the Bond Insurer that such conversion has not occurred, that the ARS Bonds will not be purchased on the failed Adjustment Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to the ARS Bonds which otherwise would have been converted excluding however, the Auction Date falling on the Business Day next preceding the failed Adjustment Date, and that the interest rate will continue to be the ARS Rate; provided, however, that the interest rate borne by the ARS Bonds during the Auction Period commencing on such failed Adjustment Date will be the Maximum Interest Rate and the Auction Period will be the seven day Auction Period.

(iv) All or a portion of the ARS Bonds may be converted to a Fixed Mode pursuant to the Indenture.

(M) *Miscellaneous Provisions Regarding Auctions.*

(i) In this section each reference to the purchase, sale or holding of the Sub-series ARS Bonds will refer to beneficial interests in the Sub-series ARS Bonds, unless the context clearly requires otherwise.

(ii) During an ARS Rate Period, with respect to each Sub-series of ARS Bonds the provisions and the definitions contained herein and described in this Indenture, including without limitation the definitions of All Hold Rate, Broker-Dealer Rate, Maximum Interest Rate, ARS Index, Interest Payment Date, ARS Rate and Auction Rate, may be amended pursuant to this Indenture by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the ARS Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Bond Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Authorizing Document, (i) the ARS Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Board, the Board and the Bond Trustee an Opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Bonds bearing interest at an ARS Rate.

(iii) If the Securities Depository notifies the Board that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Board within 90 days after the Board receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Board shall execute and the Bond Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Board and the Bond Trustee.

(iv) During an ARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

(v) Changes in Auction Period or Action Date.

(a) Changes in Auction Period

During any ARS Rate Period, the Board, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the ARS Bonds among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The Board shall initiate the change in the length of the Auction Period by giving written notice to the Board, the Bond Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(b) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds.

(c) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent such Existing Owner submits an Order with respect to such Bonds each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Interest Rate, and the Auction Period shall be a seven-day Auction Period.

(vi) Changes in Auction Date. During any Auction Rate Period, the Auction Agent, at the direction of the Board, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Board's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Bond Trustee, the Board, the Broker-Dealers and the Securities Depository. In the event that Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction period ends and the Interest Payment Date relating to a Flexible Auction Period shall be adjusted accordingly.

(vii) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

(O) *Amendment of Auction Procedures.* Subject to subsection (N) above, the Board may provide by Supplemental Indenture delivered pursuant from time to time as permitted by the Indenture for the amendment of the Auction Procedures in effect from time to time in order to conform such procedures to then current market practices by delivering to the Trustee an opinion of Bond Counsel to the effect that

such amendment is (1) authorized or permitted by this Indenture, (2) will not have an adverse effect on the exclusion from gross income for Federal income tax purposes of the interest on the Bonds and (3) will not have an adverse effect on the validity or enforceability of any Sub-series ARS Bond.

SCHEDULE I

To

AUCTION PROCEDURES

In the event of any conflict between Article I or Article II of the Appendix and Schedule I, Schedule I shall prevail.

Definitions

“All Hold Rate” means, as of any Auction Date, 70% of the Index in effect on such Auction Date for any Sub-series ARS Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 90% of the Index in effect on such Auction Date for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“Auction Agent” shall initially be Wilmington Trust Company.

“Auction Date” shall include as part of the definition the first Auction Date which shall be September 18, 2007 for the Sub-series A-1 Bonds, September 13, 2007 for the Sub-series A-2 Bonds, and September 12, 2007 for the Sub-series A-3 Bonds.

“Auction Period” shall include in the *Six-month Auction Period* either December 1 or June 1.

“Authorized Denomination” means \$5,000 and any integral multiple thereof unless another amount is specified here

“Authorizing Document” means the Trust Indenture securing the Series 2007A Bonds dated as of September 1, 2007 between the Board of Education of the City of Chicago and Amalgamated Bank of Chicago, as Trustee.

“Bonds” means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A, Sub-series A-1, Sub-series A-2 and Sub-series A-3.

“ARS Index” means on any Auction Date with respect to Bonds in any Auction period of 35 days or less (one month LIBOR), the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBORO1 Page at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.. The ARS Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by Trustee and the Board and the Broker-Dealers. If either rate is unavailable, the ARS Index shall be an index or rate agreed to by the Broker-Dealers and consented to by the Board. For the purpose of this definition an Auction period of 35 days or less means a 35-day auction Period or shorter auction Period, i.e. a 35-day auction period which is extended because of a holiday would still be considered an auction period of 35 days or less.

“Initial Period” means the period from the Closing Date to but not including September 19, 2007 with respect to the Sub-series A-1 Bonds, September 14, 2007 with respect to the Sub-series A-2 Bonds, and September 13, 2007 with respect to the Sub-series A-3 Bonds.

“Interest Payment Date” includes the first Interest Payment Date which shall be September 19, 2007, for the Sub-series A-1 Bonds, September 14, 2007, for the Sub-series A-2 Bonds, and September 13, 2007, for the Sub-series A-3 Bonds.

“Issuer” means the Board of Education of the City of Chicago.

“Maximum Interest Rate” means with respect to any of the Bonds at any time, the lesser of (i) the Statutory Maximum Rate, (ii) while the Bonds are in a Short Mode, the applicable Interest Coverage Rate or (iii) 12%, as set forth in the Authorizing Document.

Auction Procedures

Determination of Auction Period Rate. The percentage of the ARS index is 100% for any Sub-series ARS Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

APPENDIX G

GENERAL OBLIGATION BONDS TO BE REFUNDED BY THE BONDS

BOARD OF EDUCATION OF THE CITY OF CHICAGO Unlimited Tax General Obligation Bonds Series 1997A Summary of Bonds Being Currently Refunded

Maturity Date	Interest Rate (%)	Par Amount (\$)	Call Date	Call Price (%)	CUSIP
12/1/2025*	5.25	38,390,000	12/01/2007	102	167501 TH 8
12/1/2026*	5.25	40,410,000	12/01/2007	102	167501 TH 8
12/1/2027	5.25	42,530,000	12/01/2007	102	167501 TH 8
12/1/2028**	5.25	44,760,000	12/01/2007	102	167501 TL 9
12/1/2029**	5.25	47,110,000	12/01/2007	102	167501 TL 9
12/1/2030	5.25	49,585,000	12/01/2007	102	167501 TL 9

* Sinking fund installment for 2027 Term Bonds

** Sinking fund installment for 2030 Term Bonds

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