NOT A NEW ISSUE – BOOK-ENTRY ONLY **RATINGS: See "RATINGS" herein**

THIS REMARKETING CIRCULAR RELATES TO THE REOFFERING OF THE BOARD OF EDUCATION OF THE CITY OF CHICAGO $95,100,000 UNLIMITED TAX GENERAL OBLIGATION BONDS (DEDICATED REVENUES), SERIES 2000B, AS DESCRIBED HEREIN.

On September 7, 2000, Gardner, Carton & Douglas, Chicago, Illinois, and McGaugh & Associates, Chicago, Illinois (the "Initial Co-Bond Counsel") issued their opinions to the effect that, subject to compliance with certain covenants made by the Board to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended, under present law, interest an the Bonds described herein is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be taken into account in computing the corporate alternative minimum tax. Interest on the Bonds is not exempt from income taxes currently imposed by the State of Illinois. See APPENDIX D and the caption "TAX MATTERS" herein regarding a description of other tax considerations as considered by Initial Co-Bond Counsel.

In the opinion of Quarles and Brady LLP, Chicago, Illinois (the "2011 Bond Counsel") the Transaction described under the captions "Introduction –Credit Facility Substitution," and "Security for the Bonds – Amended and Restated Indenture" in and of itself, will not impair the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation to the extent such exclusion is otherwise available to interest on the Bonds. See APPENDIX E for the form of opinion to be delivered by 2011 Bond Counsel.

$95,100,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B
CUSIP*: 167505 PG5

Date of Original Issue: September 7, 2000 **Price:** 100% **Due:** March 1, 2032
Date of Reoffering: December 29, 2011

This Remarketing Circular has been prepared in connection with the issuance of the 2011 Credit Facility applicable to the $95,100,000 Board of Education of the City of Chicago Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B (the "Bonds"), as described under the caption "Introduction – Credit Facility Substitution."

This Remarketing Circular contains information relating to the Bonds while bearing interest in the Weekly Mode or the Flexible Mode. Purchasers of the Bonds should not rely on this Remarketing Circular for information relating to the Bonds bearing interest in the Fixed Mode. If any Bonds are converted to a Fixed Mode, it is expected that the Board will supplement this Remarketing Circular or deliver a new Remarketing Circular or other disclosure document describing the Bonds bearing interest in the Fixed Mode.

The Bonds were initially issued pursuant to a Trust Indenture, dated September 1, 2000 (the "Original Indenture"), between the Board of Education of the City of Chicago (the "Board") and Amalgamated Bank of Chicago, Illinois, as trustee (the "Trustee"). In connection with the reoffering of the Bonds, the Original Indenture will be supplemented and amended pursuant to an Amended and Restated Trust Indenture, dated as of December 1, 2011, between the Board and the Trustee (the "Amended Indenture" and, together with the Original Indenture, the "Indenture").

The Bonds will be remarketed as fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC is securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Principal of and interest on the Bonds will be paid by the Trustee to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursal of such payments to beneficial owners will be the responsibility of DTC and its participants. See "THE BONDS – Book-Entry Only System" herein. During any Weekly Mode or Flexible Mode, the Bonds are issuable in denominations of $100,000 or integral multiples of $5,000 in excess thereof.

The Bonds are a general obligation of the Board to the payment of which the Board has pledged its full faith and credit. The Bonds are payable from specified amounts of Pledged State Aid Revenues described herein, consisting of certain General State Aid revenues and Pledged Taxes, all as described herein. To the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from *ad valorem* taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board, the boundaries of which are coterminous with the boundaries of the City of Chicago. The Bonds are also payable from all Funds, Accounts and Sub Accounts established pursuant to the Indentures as security for each series of Bonds. See "SECURITY FOR THE BONDS."

The Bonds of each series will bear interest at a Weekly Rate until and unless converted to a different Interest Mode as described herein. The Bonds of each series may bear interest from time to time at a Weekly Rate, a Flexible Rate or a Fixed Rate as determined from time to time by the Remarketing Agent, in consultation with the Board, as described in this Remarketing Circular.

During any Weekly Mode, Bonds shall be purchased upon the demand of the owner at 100 percent of the principal amount plus accrued interest, if any, to the date of purchase, after the giving of notice as described in this Remarketing Circular. During any Flexible Mode, Bonds are subject to mandatory purchase on the Interest Payment Date therefor. The Bonds also are subject to optional tender and mandatory purchase prior to maturity as descried in this Remarketing Circular.

Payment of the principal of and interest on the Bonds and the purchase price of the Bonds that are tendered for purchase and not remarketed is secured by an irrevocable direct-pay letter of credit (the "2011 Credit Facility") issued by Wells Fargo Bank, National Association (the "2011 Credit Provider"). The 2011 Credit Facility will expire, unless extended or terminated earlier in accordance with its terms, on December 29, 2014. See "THE 2011 CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT."

WELLS FARGO

Upon the occurrence of certain events of default under the Reimbursement Agreement as more fully described herein, the rights of owners of each series of Bonds to tender their Bonds for purchase may be immediately terminated without notice or demand to any person. See "THE BONDS – Tenders – General" and "THE 2011 CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT."

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, as more fully described in this Remarketing Circular.

The reoffering of the Bonds is subject to certain conditions including the delivery of the opinion of Quarles and Brady LLP, that the Transaction described under the caption "Introduction – Credit Facility Substitution" herein will not, in and of itself, impair the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation to the extent such exclusion is otherwise available to interest on the Bonds. Certain legal matters will be passed on for the Board by its General Counsel, Patrick J. Rocks, and by its special counsel Katten Muchin Rosenman LLP, Chicago, Illinois, for the Remarketing Agent by its counsel Burke Burns & Pinelli, Ltd., Chicago, Illinois, and for the 2011 Credit Provider by its counsel, Chapman and Cutler LLP, Chicago, Illinois. It is expected that delivery of the Bonds in book-entry form will be made through the facilities of DTC on or about December 29, 2011.

BARCLAYS CAPITAL
AS REMARKETING AGENT

December 21, 2011

REGARDING USE OF THIS REMARKETING CIRCULAR

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

This Remarketing Circular should be considered in its entirety. All references herein to laws, agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Bonds are further qualified by reference to the information with respect thereto contained in the Indenture for each series of Bonds. Copies of the Indenture for each series of Bonds are available for inspection at the offices of the Board and the Trustee. The Remarketing Agent have reviewed the information in this Remarketing Circular 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 Remarketing Agent do no guarantee the accuracy or completeness of such information. The information contained herein is provided as of the date hereof and 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 REMARKETING AGENT 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 REMARKETING AGENT 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 COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE REMARKETING AGENT.

Certain capitalized terms used in this Remarketing Circular and in the Indenture for each series of Bonds are defined in APPENDIX C and unless otherwise indicated shall have the respective meanings set forth therein.

BOARD OF EDUCATION OF

THE CITY OF CHICAGO

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Vice President

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David G. Watkins
Chief Financial Officer

Patrick J. Rocks
General Counsel

Quarles and Brady LLP
Bond Counsel

Acacia Financial Group, Inc.
Columbia Capital Management, LLC
Co-Financial Advisors

TABLE OF CONTENTS

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$95,100,000
BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Bonds (Dedicated Revenues),
Series 2000B

INTRODUCTION

The purpose of this Remarketing Circular, including the cover page and the Appendices hereto, is to set forth information in connection with the reoffering by the Board of Education of the City of Chicago (the "Board") of its $95,100,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B originally issued on September 7, 2000 (the "Bonds"). The Bonds were originally issued in the aggregate principal amount of $101,000,000. Capitalized terms used in this Remarketing Circular and not otherwise defined shall have the meanings assigned to them in APPENDIX C – "Summary of Certain Provisions of the Amended and Restated Indenture."

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

Authorization.

The Bonds were issued by the Board pursuant to the provisions of the School Code of the State of Illinois, as amended (the "School Code"), the Local Government Debt Reform Act of the State of Illinois, as amended (the "Debt Reform Act"), a resolution adopted by the Board on August 26, 1998 (the "Resolution"), authorizing the issuance of alternate bonds, being general obligation bonds payable from any revenue source as provided by the Act ("Alternate Bonds"), in an amount not to exceed $900,000,000, and completed (i) the backdoor referendum proceedings required by Section 15 of the Act and (ii) the notice and hearing requirements of the Bond Issue Notification Act of the State of Illinois, as amended, authorizing the Board to issue its Alternate Bonds in said amount of $900,000,000 (the "1998 Authorization"), and a Trust Indenture dated as of September 1, 2000 (the "Original Indenture") between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee (the "Trustee"), as amended by that certain Amended and Restated Indenture of Trust dated as of December 1, 2011 between the Board and the Trustee (the "Amended Indenture" and together with the Original Indenture, the "Indenture"). See APPENDIX C – "Summary of Certain Provisions of the Amended and Restated Indenture."

Purpose

The Board issued the Bonds to provide funds for the continued implementation of its Capital Improvement Program. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Capital Improvement Program" for a description of the current status of the Capital Improvement Program.

Security for the Bonds

The Bonds are a general obligation of the Board to the payment of which the Board has pledged its full faith and credit. The Bonds are secured by and are payable together with the currently outstanding

Series 2000E Bonds (as defined herein) and Series 2003C Bonds (as defined herein) and such Additional Bonds (as defined herein) as may be issued in the future, (i) from the Pledged State Aid Revenues (as defined herein), (ii) to the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, from the *ad valorem* taxes levied by the Board pursuant to the Bond Resolution, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the Indenture as security for such Bonds (the “Pledged Taxes”) and (iii) from all Funds, Accounts and Sub-Accounts pledged pursuant to the Indenture. See “SECURITY FOR THE BONDS – General” and “– General State Aid” for a discussion of Pledged State Aid Revenues and additional information pertaining to General State Aid. For a discussion of other obligations of the Board payable from Pledged State Aid Revenues available for bonds issued under the 1998 Authorization, see “1998 Authorization Bonds and Additional Bonds” below.

1998 Authorization Bonds and Additional Bonds

Alternate Bonds issued under the 1998 Authorization are currently outstanding. See “SECURITY FOR THE BONDS – General” and “– General State Aid.” The Board’s Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000E currently outstanding in the amount of $13,390,000 (the “Series 2000E Bonds”) and its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003C currently outstanding in the amount of $4,585,000 (the “Series 2003C Bonds” and, together with the Bonds and the Series 2000E Bonds, the “1998 Authorization Bonds”) and the Bonds are the only Alternate Bonds currently outstanding under the 1998 Authorization. The amount of $29,805,000 of Alternate Bonds remains authorized and unissued under the 1998 Authorization. All of the 1998 Authorization Bonds are Alternate Bonds payable from the State Aid Revenues available under the 1998 Authorization.

The Board has the right to issue Additional Bonds from time to time payable from (i) all or any portion of the Pledged State Aid Revenues, and/or (ii) any other source of payment which may be pledged under the Debt Reform Act, provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. Any such Additional Bonds shall, to the extent they are secured by Pledged State Aid Revenues, share ratably and equally in the Pledged State Aid Revenues with the Bonds, the Series 2000E Bonds and the Series 2003C Bonds. For additional information see “SECURITY FOR THE BONDS – Additional Bonds Payable From Pledged State Aid Revenues” and “– Other Additional Indebtedness.”

Other Alternate Bonds

The Board has issued and currently has outstanding $5.9 billion in Alternate Bonds payable from Alternate Revenues, including designated amounts of the Board’s State Aid Revenues that do not constitute Pledged State Aid Revenues which secure the Bonds. See “BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.” On or about the date of reoffering of the Bonds, the Board has issued refunding bonds and reoffered bonds of other series that are payable from additional designated amounts of the Board’s State Aid Revenues (that are not Pledged State Aid Revenues which secure the Bonds) under other authorizing resolutions. In the future, the Board may issue additional Alternate Bonds payable from additional designated amounts of the Board’s State Aid Revenues (that are not Pledged State Aid Revenues which secure the Bonds) under future authorizing resolutions. See “SECURITY FOR THE BONDS – Other Additional Indebtedness.”

Credit Facility Substitution

As permitted by the terms of the Indenture, the Board has provided for the delivery to the Trustee of a Substitute Credit Facility for the Bonds. The Board is entering into the Reimbursement Agreement (as hereinafter defined) with Wells Fargo Bank, National Association, meeting the requirements of a Substitute Credit Provider under the Indenture (the "2011 Credit Provider"), pursuant to which the 2011 Credit Provider is issuing an irrevocable, direct-pay letter of credit meeting the requirements of a Substitute Credit Facility under the Indenture (the "2011 Credit Facility") to support the payment of the principal of and interest on, and the purchase price of, the Bonds. See "THE 2011 CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT." In order to accomplish such substitution, the Board is entering into the Amended Indenture (such substitution and the execution and delivery of the Amended Indenture by the Board referred to collectively as the "Transaction").

It is expected that the bond insurance policy issued by Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.) with respect to the Bonds will be cancelled on the date of reoffering of the Bonds at the request of the Board and the consent of the Trustee. No bond insurance or other credit enhancement, other than the 2011 Credit Facility, will be provided with respect to the Bonds after the date of the reoffering of the Bonds.

The Remarketing Agent

Barclays Capital Inc. has been appointed as the Remarketing Agent for the Bonds. See "THE REMARKETING AGREEMENT." The Remarketing Agent will consent to the Amended Indenture in connection with the reoffering of the Bonds.

THE BONDS

General

The Bonds were originally dated September 7, 2000 and will mature on March 1, 2032. The Bonds will be in a Weekly Mode from the date of reoffering and will bear interest at the applicable Weekly Rate until the Interest Mode is converted as described under the subcaption " – Rate Periods, Modes and Mode Conversions." Thereafter, the Bonds may be converted to a Flexible Mode or a Fixed Mode. The Weekly Mode and Flexible Mode (collectively, the "Short Mode") are described below. If any Bonds are converted to a Fixed Mode, it is expected that the Board will supplement this Remarketing Circular or deliver a new Remarketing Circular or other disclosure document describing the Bonds bearing interest in the Fixed Mode.

The Bonds are fully registered bonds and are issuable, while in a Short Mode, in denominations of $100,000 and any integral multiple of $5,000 in excess thereof (an "Authorized Denomination").

The Bonds 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.

Rights of a Credit Provider

The Indenture grants a Credit Provider, including the 2011 Credit Provider, certain approval, consent and waiver rights with respect to certain actions that the Board and the Bondholders are authorized to take under the Indenture. See APPENDIX C – "Summary of Certain Provisions of the Amended and Restated Indenture."

Summary of Interest Modes

The pertinent provisions of the Weekly Mode and the Flexible Mode relating to the determination of interest rates and the payment of interest, changes in Interest Modes and rights of optional tender are summarized on the following chart:

	WEEKLY MODE	FLEXIBLE MODE
Interest Payment Date	First Business Day of each calendar month, each Adjustment Date and the Maturity Date; calculated on actual days elapsed over 365/366 day year	Each Rate Change Date on which next succeeding Rate Period begins, the Adjustment Date at end of Flexible Mode and the Maturity Date; calculated on actual days elapsed over 365/366 day year
Interest Accrual	First Business Day of each calendar month to and including the day before first Business Day of following month	From each Rate Change Date commencing a Flexible Period to and including the day immediately preceding the next succeeding Rate Change Date.
Record Date	Business Day preceding Interest Payment Date	Business Day preceding Interest Payment Date
Mode Adjustment Notice	Trustee to give Immediate Notice to owner not later than 15 days preceding Adjustment Date	None
Optional Tender Notice	Irrevocable written Tender Notice to Trustee's Agent and the Remarketing Agent not later that 4:00 p.m., Chicago time, on any Business Day	None
Demand Date	Business Day specified in Optional Tender Notice at least seven days after receipt of Optional Tender Notice	None
Rate Determination Date	By 3:00 p.m., Chicago time, each Wednesday or, if Wednesday is not a Business Day, the immediately preceding Business Day	By 11:00 a.m., Chicago time, on the Business Day commencing the relevant Rate Period.
Rate Change Date and Rate Period	Thursday of each week or the Business Day immediately succeeding the Rate Determination Date; effective through the immediately succeeding Rate Determination Date	The Business Day commencing the relevant Rate Period; Flexible Rate is effective through the day immediately preceding the next succeeding Rate Determination Date, which Rate Period cannot extend beyond the number of days of interest coverage provided by the then-current Credit Facility.

Interest

The interest on the Bonds bearing interest at a Weekly Rate shall be payable on the applicable Interest Payment Date as described herein, computed on the basis of a 365 or 366-day year, as applicable, for the number of days actually elapsed. The initial Interest Payment Date after the initial date on which the Bonds are supported by the 2011 Credit Facility (the "2011 Exchange Date") shall be January 3, 2012. The Bonds shall bear interest for each Weekly Rate Period at the rate determined by the Remarketing Agent for such Weekly Mode Period. Thereafter interest on the Bonds shall be at the Weekly Rate unless and until converted to a different Flexible Rate or Fixed Rate.

Interest on Bonds in a Weekly Mode will be equal to the interest accrued thereon, at the Weekly Rate, for the period from the later of (i) the first Business Day of each calendar month or (ii) the Adjustment Date for such Weekly Mode to, but not including, the earlier of (a) the first Business Day of the next calendar month or (b) the Adjustment Date for the Interest Mode which succeeds such Weekly Mode. Interest on each Bond in a Flexible Mode which is payable on each Interest Payment Date therefor (i.e., the "Rate Change Date" for such Bond) will be equal to the interest accrued thereon, at the Flexible Rate, from the Rate Change Date commencing the relevant Rate Period for such Bond to, but not including, the next succeeding Rate Change Date. Interest on Bonds which are Credit Provider Bonds which is payable on each Interest Payment Date therefor will be equal to the interest accrued thereon, at the Credit Provider Rate, for the period to, but not including, such Interest Payment Date from the preceding Interest Payment Date to which interest has been paid. The foregoing notwithstanding, no interest will accrue on any Bond prior to its date of initial delivery or after the Maturity Date thereof, or after the redemption or mandatory or optional purchase date for such Bond (provided the redemption or purchase price is paid or provided for in accordance with the provisions of the Indenture).

Interest Rate

The Bonds will bear interest, when in the Weekly Mode, at the Weekly Rate; when in the Flexible Mode, at the Flexible Rate and when Credit Provider Bonds, at the Credit Provider Rate (as defined in the Reimbursement Agreement as the "Bank Rate"). The determination of the interest rate on the Bonds as described herein will be conclusive and binding on the owner of the Bonds, the Trustee and the Board. At no time will the Bonds bear interest at a rate in excess of (i) the maximum rate permitted from time to time pursuant to applicable law, including the Bond Authorization Act of the State of Illinois, as amended, (ii) while the Bonds are in a Short Mode, the then applicable Interest Coverage Rate, initially 15 percent (15%) per annum or (iii) in any event, 15 percent (15%).

Weekly Rate. No later than 3:00 p.m., Chicago time, on Wednesday of each week, or such other day of the week designated as a Rate Determination Date by the Remarketing Agent as described below, or if such day is not a Business Day, then the immediately preceding Business Day, the Remarketing Agent will determine for the period commencing on the immediately succeeding Thursday and ending on the next succeeding Wednesday a fixed per annum interest rate to be borne by each Bond (which rate shall be the same for all Bonds of that series in the Weekly Mode) bearing interest at the Weekly Rate. Such Weekly Rate will be equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable each such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the immediately succeeding Rate Change Date (i.e., Thursday, or such other day of the week designated as the Rate Change Date by the Remarketing Agent as described below). Except on an Adjustment Date, if the Weekly Rate is not determined by the Remarketing Agent on a Rate Determination Date, the rate of interest borne by such Bonds bearing interest at the Weekly Rate shall be equal to The Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index ("SIFMA") until the Remarketing Agent next determines the Weekly Rate as required under the

Indenture. See "THE BONDS – Failure to Determine Interest Rate." The Trustee will provide information regarding the Weekly Rate to any Bondholder on written request.

If at any time the Remarketing Agent determines, in its judgment, that the scheduled Rate Determination Dates or Rate Change Dates during a Weekly Mode have become inappropriate (taking into account general market practice with respect to periodic adjustment of rates on instruments comparable to the Bonds bearing interest at the Weekly Rate, whether based upon the time of compilation or reporting of any interest rate or financial index or indicator or otherwise), the Remarketing Agent may, after consultation with the Board, designate new scheduled Rate Determination Dates and/or Rate Change Dates, to remain in effect until another redetermination of scheduled Rate Determination Dates or Rate Change Dates. The Remarketing Agent will give written notice of any change in scheduled Rate Determination Dates and/or Rate Change Dates during a Weekly Mode to the Trustee, the Credit Provider, the Trustee's Agent, if any, and the Board, and such change will become effective on the first scheduled Rate Determination Date or Rate Change Date, as the case may be, so designated occurring not less than 14 days following the giving of such notice. Promptly upon receipt of such notice, the Trustee shall notify or cause the Remarketing Agent to notify each affected Bondholder of such change in writing.

Flexible Rate. No later than 11:00 a.m., Chicago time, on the Rate Determination Date for a Bond bearing interest at the Flexible Rate, the Remarketing Agent will determine (a) the duration of the Rate Period for such Bond by specifying the succeeding Rate Change Date (which shall also be the succeeding Rate Determination Date) for such Bond which Rate Change Date shall (i) be no later than the Business Day prior to the Stated Termination Date of the then-current Credit Facility and (ii) not extend beyond the number of days of interest coverage provided by the then-current Credit Facility, in either case, if a Credit Facility is required to be in place and (b) the Flexible Rate applicable to such Bonds bearing interest at the Flexible Rate during such Rate Period. The last day of such Rate Period must be a Business Day and the day next succeeding such Business Day must also be a Business Day. No Rate Period during any Flexible Mode shall extend beyond March 1 of any year unless Bonds in an aggregate principal amount equal to the mandatory sinking fund redemption requirement on March 1 of such year shall remain Outstanding and callable for redemption or subject to purchase in lieu of redemption on such March 1. The Flexible Rate will be a fixed per annum interest rate 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. Except on an Adjustment Date, if the Flexible Rate for any Bond is not determined by the Remarketing Agent on any Rate Determination Date, such Bond will bear interest at a Flexible Rate equal to SIFMA for a Rate Period of the shortest possible duration authorized by the Indenture until the Remarketing Agent next determines the Flexible Rate, as required under the Indenture. See "THE BONDS – Failure to Determine Interest Rate."

The Remarketing Agent will determine the duration of Rate Periods during a Flexible Mode as will result, in the judgment of the Remarketing Agent, in the lowest aggregate cost being payable by the Board with respect to the Bonds bearing interest at Flexible Rates, taking into account interest and any other determinable fees and expenses. The Remarketing Agent may establish different Rate Periods on the same Rate Change Date for Bonds in the Flexible Mode in order to achieve an average duration of Rate Periods that, in the judgment of the Remarketing Agent, is most likely to achieve the lowest total aggregate cost being payable by the Board with respect to such Bonds, taking into account interest and any other determinable fees and expenses. The Remarketing Agent's determination will be based upon the market for, and the relative yields of, the Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the judgment of the Remarketing Agent, are otherwise comparable to the Bonds, or any fact or circumstance relating to the Bonds, affecting the market for the Bonds or affecting such other comparable securities in a manner that, in the judgment of the Remarketing Agent, will affect the market for the Bonds. The Remarketing Agent's determination will be conclusive and binding upon all

parties. The Trustee will provide information regarding the Flexible Rate and Rate Periods to any Bondholder on written request.

Rate Periods, Modes and Mode Conversions

All Bonds need not operate in the same Interest Mode at the same time. The Interest Modes are the Weekly Mode, the Flexible Mode and the Fixed Mode. All Bonds of a series in the Weekly Mode will bear interest at the same interest rate. Bonds operating in the Flexible Mode may bear interest at different rates for different Rate Periods and at different rates for the same Rate Period.

Conversion to Short Mode. The Board may designate a different Interest Mode with respect to any Bond during a Flexible Mode on any Rate Change Date and during a Weekly Mode on any Business Day. The Board may select such subsequent Interest Mode and, within a Flexible Mode, the Remarketing Agent may designate such Rate Periods from time to time, as will, in its judgment, result in the lowest aggregate cost being payable by the Board with respect to the Bonds bearing interest at a Flexible Rate, taking into account interest and any other determinable fees and expenses relating to such Bonds. The Board may establish different Interest Modes and, within a Flexible Mode, the Remarketing Agent may establish different Rate Periods, for Bonds on the same Adjustment Date in order to achieve an average duration of Rate Periods that, in the judgment of the Remarketing Agent, is most likely to achieve the lowest total aggregate cost payable by the Board with respect to the Bonds, taking into account interest and any other determinable fees and expenses. The Remarketing Agent's determination will be based upon the market for and the relative yields of the Bonds and other securities that bear interest at a variable rate or at fixed rates that, in the judgment of the Remarketing Agent, are otherwise comparable to the Bonds, or any fact or circumstance relating to the Bonds or affecting the market for the Bonds or affecting such other comparable securities in a manner that, in the judgment of the Remarketing Agent, will affect the market for the Bonds. The Remarketing Agent, in its discretion, may consider such information and resources as it deems appropriate in making the determinations required by the Indenture, but the Remarketing Agent's determination will be based solely upon the Remarketing Agent's judgment, and the Remarketing Agent's determination will be conclusive and binding upon all parties.

The foregoing notwithstanding, the Board may select any Interest Mode and, within a Flexible Mode, the Remarketing Agent may designate any Rate Period which does not meet the foregoing standards, provided that such designation is accompanied by the written approval of the Board or an Opinion of Bond Counsel to the effect that such approval is not required for the continued validity and enforceability of the Bonds in accordance with their terms.

The Board will evidence each designation of a subsequent Interest Mode and Adjustment Date for the Bonds by giving written notice to the Trustee, the Trustee's Agent, if any, the Remarketing Agent, the Credit Provider, and each Rating Service, specifying the Interest Mode or Modes in which such Bonds will operate during such Adjustment Period and the commencement date of such Adjustment Period; provided that (i) if such Adjustment Period is a Flexible Mode, the first day following each Rate Period therein must be a Business Day and (ii) not later than the 20th day prior to the Adjustment Date with respect to the new Adjustment Period, the Trustee must have received written evidence from each Rating Service that the then-current rating on such Bonds will not be reduced or withdrawn due to the conversion of such Bonds to the Flexible Mode. In addition, if a Credit Facility is required, the Credit Facility must provide enough days of interest coverage after the Adjustment Date as may be required by any Rating Service on the applicable series of Bonds to continue such rating.

Upon receipt of such notice from the Board, the Trustee, at least 15 days prior to each succeeding Adjustment Date, will give Immediate Notice to each owner of Bonds thereby affected bearing interest at

a Weekly Rate of the mandatory tender for purchase of the affected Bonds on the Adjustment Date. See "– Tenders – Mandatory Tender."

Fixed Rate Conversion. On any Rate Change Date during a Flexible Mode and on any Business Day during a Weekly Mode at the direction of the Board, the interest rate to be borne by all or any portion of the Bonds in such Interest Mode may be converted to a Fixed Rate, and such Bonds so converted thereafter will bear interest at such Fixed Rate. Such direction of conversion will be accompanied by, among other things, (i) a firm underwriting or purchase contract from a recognized firm of bond underwriters or recognized institutional investors to underwrite or purchase all Bonds which are to be converted on such Fixed Rate Conversion Date at a price of 100 percent of the principal amount thereof and (ii) an Opinion of Bond Counsel to the effect that such conversion (A) is authorized or permitted by the Indenture, (B) will not have an adverse effect on the exclusion from gross income for federal income tax purposes of the interest on the Bonds, and (C) will not have and adverse effect on the validity or enforceability of any Bond. The conversion of the interest rate borne by Bonds to a Fixed Rate will not become effective unless, on the applicable Fixed Rate Conversion Date, the Trustee has received an Opinion of Bond Counsel, dated the applicable Fixed Rate Conversion Date, reaffirming its earlier opinion.

At least 15 days prior to the Fixed Rate Conversion Date, the Trustee will give or cause the Remarketing Agent to give written notice of such election by the Board to the registered owners of all Bonds to be converted bearing interest at a Weekly Rate, which notice will state (i) the Fixed Rate Conversion Date and (ii) that such Bonds will be subject to mandatory purchase on such Fixed Rate Conversion Date. See "-Tenders -- Mandatory Tender."

If the conversion of the interest rate on any Bond does not occur for any reason, including if any condition precedent to the conversion has not occurred, such Bond will bear interest from and after the proposed Fixed Rate Conversion Date in the same Interest Mode as the Interest Mode applicable to such Bond prior to the proposed Fixed Rate Conversion Date and at the interest rate as calculated in the manner set forth under the subcaptions "– Interest" and "– Interest Rate," above.

No Credit Facility is required for Bonds bearing interest at a Fixed Rate, so the amount of the Credit Facility, if any, may be (i) permanently reduced on or after the Fixed Rate Conversion Date with respect to Bonds bearing interest at the Fixed Rate and (ii) reduced, subject to the provisions of the Indenture with respect to subsequent conversions to a Short Mode.

Failure to Determine Interest Rate

Except with respect to a failed conversion to a Fixed Rate Mode as described above, if the Remarketing Agent does not determine the interest rate applicable to the initial Rate Period during a new Interest Mode with respect to any Bond as described above under the subcaption "– Rate Periods, Modes and Mode Conversions," the immediately succeeding Interest Mode with respect to the Bonds in the Interest Mode then ending will be a Weekly Mode with a Weekly Rate established by the Remarketing Agent, or if the Remarketing Agent fails to set such interest rate, such Weekly Rate shall be equal to SIFMA.

Credit Facility Not Required in Certain Circumstances

While any Bonds bear interest at a Short Rate, such Bonds are required to have the benefit of a Credit Facility unless, prior to the expiration or termination of the Credit Facility then in effect, there is delivered to the Board, the Remarketing Agent, the Trustee and the Trustee's Agent: (i) an Opinion of Bond Counsel to the effect that the expiration or termination of the Credit Facility then in effect will not

adversely affect the validity of such Bonds or any exclusion from gross income for Federal income tax purposes of interest on such Bonds and (ii) written evidence from each Rating Service that the ratings on such Bonds (other than Bonds in the Fixed Mode) following the expiration or termination of the Credit Facility will not be reduced or withdrawn from the rating on such Bonds immediately prior to such expiration or termination. Bonds bearing interest at a Fixed Rate shall not be required to have the benefit of a Credit Facility.

Upon satisfaction of the requirements described in the paragraph above, (i) the Trustee, upon receipt of the written request of the Board, shall direct or send appropriate notice to the Credit Provider requesting or directing the cancellation of the Credit Facility then in effect on the date (the "Credit Facility Cancellation Date") requested by the Board in such written request, which date may not be fewer than 30 days, or such longer period as is required by the Credit Facility for its termination at the request of the Board, from the date the Trustee receives such written request and (ii) following the date of such cancellation, all Tendered Bonds may be remarketed by the Remarketing Agent pursuant to the Remarketing Agreement without the benefit of a Credit Facility until such time, if any, as the Bonds are thereafter entitled to the benefits of a Credit Facility pursuant to the provisions of the Indenture, but only if there is delivered to the Board, the Trustee, the Trustee's Agent and the Remarketing Agent an Opinion of Bond Counsel to the effect that the execution and delivery of the Credit Facility will not adversely affect the validity of such Bonds or any exclusion from gross income for Federal income tax purposes of interest on such Bonds. The Bonds bearing interest at a Short Rate are subject to mandatory tender on each applicable Credit Facility Cancellation Date as described below under the subcaption "– Tenders – Mandatory Tender."

Tenders

General. In certain circumstances as described above under the caption "THE BONDS – Credit Facility Not Required in Certain Circumstances," the Board is not required to maintain a Credit Facility for the purchase of Tendered Bonds prior to the Fixed Rate Conversion Date. In such circumstances, the Board may terminate a Credit Facility or permit a Credit Facility to expire, and the registered owners of the Bonds benefiting from such Credit Facility shall be entitled to have their Bonds purchased from funds made available under such Credit Facility prior to such termination or expiration. If a Credit Facility is not provided, thereafter funds for the purchase of Tendered Bonds must be provided by the Board from Pledged State Aid Revenues or other sources.

The following information, including without limitation the manner of exercising mandatory and optional tender rights, is subject in its entirety to the provisions described below under the subcaption "– Book-Entry Only System – Optional and Mandatory Tenders" while the Bonds are in the Book-Entry Only System.

Optional Tender. Each owner of any Bond (other than a Credit Provider Bond) during a Weekly Mode may demand that its Bond be purchased, in whole (or in part in an Authorized Denomination), on any Demand Date therefor during the Weekly Mode at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Demand Date.

To effect such purchase during a Weekly Mode, an owner must deliver, on a Business Day, to the Trustee's Agent (initially, the Trustee) and the Remarketing Agent irrevocable written notice (which may be given by telecopy), which notice must be received by the Trustee's Agent not later than 4:00 p.m., Chicago time, on a Business Day in order to be effective on that day. Any notice received after 4:00 p.m., Chicago time, on a Business Day shall be deemed given on the next succeeding Business Day. Such notice must specify (i) the principal amount and number of such Tendered Bond, the name and address of such owner and the taxpayer identification number, if any, of such owner and (ii) the Demand Date on

which such Tendered Bond is to be purchased. Such Demand Date must be a Business Day not less than seven calendar days after the date such notice is received by the Trustee.

Bonds in a Flexible Mode are not subject to optional tender.

Mandatory Tender. Bonds (other than those described below) are subject to mandatory tender by the owners thereof to the Trustee at its principal office on each date described below at a purchase price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the purchase date therefor (unless purchased on an Interest Payment Date):

(i) with respect to any Bond (other than a Credit Provider Bond) bearing interest at a Flexible Rate, on each Rate Change Date for such Bond other than the Rate Change Date which is the first day of the Flexible Mode applicable to such Bond;

(ii) on each Adjustment Date, including, without limitation, a proposed Fixed Rate Conversion Date or a Substitute Adjustment Date applicable to any Bonds (other than a Credit Provider Bond) which are proposed to be converted to a different Interest Mode;

(iii) while a Credit Facility is required, on a Business Day no more than 15 days after the Trustee gives Immediate Notice to the owners of Bonds (and in no event later than the Business Day prior to the last day on which funds will be available under the Credit Facility) of the occurrence and continuation of any one of the defaults described under the caption "THE 2011 CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT – Reimbursement Agreement – Events of Default");

(iv) on the Business Day immediately preceding the Stated Termination Date of a Credit Facility if (1) a Credit Facility is required to be in effect, and (2) by the 20th day preceding a Stated Termination Date, a notice of extension of the current Credit Facility or a commitment to deliver a Substitute Credit Facility has not been delivered, and

(v) on the Business Day prior to the Credit Facility Cancellation Date, if a Credit Facility is no longer required pursuant to the Indenture; and

In the case of clauses (i) and (ii) above, the Bonds that are the subject of such events are subject to mandatory tender. In the case of clauses (iii), (iv), (v) and (vi), all Bonds are subject to mandatory tender (except to the extent set forth in clause (iv)). An owner of a Bond subject to mandatory tender may not elect to retain its Bonds.

No notice will be given for a mandatory tender described in clause (i) above of Bonds bearing interest at a Flexible Rate.

With respect to a mandatory tender described in clause (ii) above of Bonds bearing interest at a Weekly Rate not later than the 15th day next preceding the Adjustment Date with respect thereto, the Trustee is required to give Immediate Notice to the owners of such Bonds stating the last day of the Adjustment Period then ending and that such Bonds are required to be purchased on such Adjustment Date.

With respect to a mandatory tender described in clause (iii) above, all Bonds are required to be purchased on a Business Day designated in the Immediate Notice referred to in clause (iii), no more than 15 days after the date of such Immediate Notice and at least one Business Day prior to the last day on which funds will be available under the Credit Facility.

With respect to a mandatory tender described in clause (iv)(a) above, not later than the 15th day preceding the Stated Termination Date of the Credit Facility, if no extension of such Credit Facility or no commitment to issue a Substitute Credit Facility has been delivered, the Trustee shall give Immediate Notice to the owners of the applicable Bonds stating (i) the Stated Termination Date, (ii) that no Substitute Credit Facility has been received as of the date of such notice and (iii) that such Bonds are required to be purchased on the Business Day immediately preceding the Stated Termination Date.

With respect to a mandatory tender described in clause (v) above, not later than the 15th day preceding the Credit Facility Cancellation Date, the Trustee shall give Immediate Notice to the owners of Bonds stating (i) that the existing Credit Facility is to be canceled pursuant to the Indenture and (ii) such Bonds are required to be purchased on the Business Day prior to the Credit Facility Cancellation Date.

Purchase of Tendered Bonds. Tendered Bonds will be purchased from the following sources in order of priority indicated:

(i) proceeds from the remarketing of Tendered Bonds pursuant to the Remarketing Agreement;

(ii) moneys received from the underwriter or purchaser (other than the Board) of Tendered Bonds upon the conversion of the interest rate thereon to a Fixed Rate;

(iii) proceeds of the Credit Facility; and

(iv) moneys furnished by the Board to the Trustee for the optional purchase or the optional purchase and cancellation of Tendered Bonds pursuant to the Indenture.

The Trustee's Agent is required to pay the purchase of each Tendered Bond to the registered owner thereof by 1:30 p.m., Chicago time, on the purchase date, provided that such owner has delivered such Tendered Bond with any necessary endorsements to the designated office of the Trustee's Agent no later than 12:00 noon, Chicago time, on such date. If funds from the sources identified above shall not be available to purchase a Tendered Bond, the owner shall continue to hold such Bond and it shall bear interest, commencing on the date on which such Bond was tendered for purchase, at an interest rate equal to the lesser of (i) SIFMA or (ii) the Maximum Interest Rate.

Undelivered Tendered Bonds. If sufficient moneys are on deposit with the Trustee to pay the applicable purchase price of any Tendered Bond, such Tendered Bond will be deemed to have been purchased whether or not delivered by the owner thereof on the date such Tendered Bond is to be purchased. If any such purchased Tendered Bond is not so delivered, the Board will execute and the Trustee will authenticate and deliver a replacement Bond of like date, Maturity Date and denomination as the Tendered Bond and bearing a number not contemporaneously outstanding.

Remarketing of Credit Provider Bonds

Credit Provider Bonds, when remarketed, shall be purchased at a price equal to the principal amount thereof plus accrued interest, if any, thereon at the Credit Provider Variable Rate until the Bond Sale Date; accrued interest on Credit Provider Bonds at the Differential Interest Amount shall be due to the Credit Provider from the Board on the Bond Sale Date. The Indenture does not provide for the acceleration of Credit Provider Bonds, either while held by the Credit Provider or when remarketed. See Appendix C – "Summary of Certain Provisions of the Amended and Restated Indenture."

Redemption

Optional Redemption during Weekly Mode. During any Weekly Mode, the Bonds in such Mode are 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, as applicable, at a redemption price equal to 100 percent of the principal amount thereof plus accrued interest, if any, to the redemption date.

Optional Redemption during Flexible Mode. During any Flexible Mode, the Bonds in such Mode are 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 of 100 percent of the principal amount thereof plus accrued interest, if any, to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds (including Credit Provider Bonds) are subject to mandatory sinking fund redemption prior to their maturity at a redemption price equal to the principal amount thereof, on March 1 in the years and in the amounts set forth below:

Year	Principal Amount
2014	$1,800,000
2015	1,900,000
2016	2,200,000
2017	2,500,000
2018	2,700,000
2019	3,700,000
2020	4,200,000
2021	4,500,000
2022	4,800,000
2023	5,100,000
2024	5,400,000
2025	5,800,000
2026	6,100,000
2027	6,500,000
2028	6,900,000
2029	7,200,000
2030	7,700,000
2031	8,200,000
2032	7,900,000*

**final maturity*

Redemption Procedures. Any redemption of less than all of the Bonds Outstanding will be made (i) first, from Credit Provider Bonds then Outstanding and (ii) next, from the Bonds of such series as the Board shall designate. No optional redemption of less than all of the Bonds outstanding will be made unless the aggregate principal amount of Bonds to be redeemed is equal to $100,000 or integral $5,000 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 partial redemption, the particular Bonds (or portions thereof), to be redeemed will be selected

by the Board, in the principal amount and particular 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 that (i) in the case of the redemption of less than all of the Bonds which bear interest in the same Interest Mode 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. Except as provided in the next sentence, notice of the redemption of Bonds will be given by first class mail, postage prepaid, or by facsimile transmission not less than 30 days prior to the redemption date, to the registered owners of the Bonds to be redeemed at their addresses as shown on the Bond Register. Prior to the date that the redemption notice is first given as aforesaid, funds shall be placed with the Trustee to pay such Bonds, any premium thereon, and accrued interest thereon to the redemption date, or (except in the case of a mandatory sinking fund redemption) such notice shall state that any redemption is conditional on such funds being deposited on the redemption date, and that failure to deposit such funds shall not constitute an Event of Default under the Indenture. 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

For a description of the procedure to transfer ownership of a Bond while in the book-entry only system, see "– Book-Entry Only System" below. Subject to the limitations described below, the Bonds are transferable upon surrender thereof at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to, the Trustee and duly executed by the Bondholder or such Bondholder's attorney duly authorized in writing. Subject to the limitations described below, any Bond may be exchanged at the principal corporate trust office of the Trustee upon surrender thereof, together with an assignment duly executed by the registered owner thereof or such registered owner's attorney in such form and with guarantee of signature as shall be

satisfactory to the Trustee for an equal aggregate principal amount of Bonds of like date and tenor of any Authorized Denomination as the Bonds surrendered for exchange bearing numbers not contemporaneously outstanding. The Trustee and the Board may charge a fee sufficient to cover any tax, fee or other governmental charge in connection with any exchange or transfer of any Bond (except in connection with any partial redemption thereof). Prior to 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 Remarketing Circular. Neither the Board nor the Remarketing Agent is 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 will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the reoffered 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 reoffered 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 the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 the Bonds 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 Money Management Institute ("MMI") Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be paid 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 the Trustee, on the payment 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 Board or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board and the Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board or 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.

For every transfer and exchange of the Bonds, the Trustee and DTC and the Participants may charge the beneficial owner a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

The Board and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than an owner, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any Participant or any other person, other than an owner, of any amount with respect to principal of or interest on the Bonds.

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

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

Optional and Mandatory Tenders. As described above under the subcaptions "– Summary of Interest Modes" and "– Tenders," the Owner of a Bond in the Weekly Mode may require the purchase of its Bond. While the Bonds are in the Book-Entry Only System, a beneficial owner (a) must give its tender notice to the Remarketing Agent (pursuant to DTC's Deliver Order procedures, so long as DTC is Securities Depository for the Bonds) by telephone (promptly confirmed in writing) or in writing, and (b) must effect delivery of such Bond by causing its Direct Participant to transfer the Participant's interest in the Bond so tendered for purchase on DTC's records. The requirement for physical delivery of a Bond in connection with a beneficial owner's election to tender its Bonds for purchase or a mandatory purchase of such beneficial owner's Bond is deemed satisfied when the ownership rights in the Bonds are transferred by the Direct Participants on DTC's records to the Remarketing Agent and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account or otherwise transferred to the satisfaction of the Trustee.

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 or a Flexible 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 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 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 that 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.

SECURITY FOR THE BONDS

General

The Bonds are general obligations of the Board to the payment of which the Board has pledged its full faith, credit, and taxing power, and are 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 are not 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.

Pursuant to the Debt Reform Act, the Bonds of the several series will be payable from and secured by a pledge of (i) a specified amount of General State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future (severally defined in APPENDIX C – "Summary of Certain Provisions of the Amended and Restated Indenture") as the "Pledged State Aid Revenues," as described below, (ii) the *ad valorem* taxes levied or to be levied, as described below, against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "Pledged Taxes"), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture.

The Bonds are payable on a parity basis from the Pledged State Aid Revenues. For a description of the other obligations of the Board payable from the Pledged State Aid Revenues, see "– Prior Alternate Bonds," below.

As a condition to the issuance of the Bonds as general obligations of the Board as described herein, the Debt Reform Act requires that revenues, such as the specified amounts of the Pledged State Aid Revenues pledged to the payment of the respective series of the Bonds, be sufficient to pay 1.25 times total debt service on all obligations to which they have been pledged. The Board has outstanding certain other obligations payable from the specified portions of the Pledged State Aid Revenues pledged to the payment of the respective series of the Bonds which have been issued in compliance with the 1.25 times coverage requirements of the Debt Reform Act. See "SECURITY FOR THE BONDS – Prior Alternate Bonds." Additional Bonds may also be issued and secured by the Pledged State Aid Revenues provided that the requirements of the Debt Reform Act at the time of issuance of such Additional Bonds have been satisfied. See "SECURITY FOR THE BONDS – Additional Obligations Payable from Pledged State Aid Revenues."

As described herein, the Pledged Taxes will be collected only as and to the extent that the Pledged State Aid Revenues are not available in sufficient amounts to pay the debt service on the Bonds. The Board has covenanted in each Indenture to take all actions necessary to cause a levy and extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Bonds. See "– Pledged Taxes" below.

General State Aid

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

GSA consists of a regular foundation formula claim and a poverty grant ("Supplemental General State Aid"). The calculation of the regular foundation claim depends primarily upon a school district's best three months' average daily attendance and local resources such as equalized assessed valuation of property and corporate personal property replacement taxes within the school district. For fiscal year 2012, the foundation level is set at $6,119. However, the General Assembly did not appropriate sufficient funds to fully cover the General State Aid payment; therefore, each school district will only receive 95% of the General State Aid claim. The fiscal year 2012 budget adopted by the Board and discussed below assumes only 95% will be received.

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

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 2002 through 2012, the required contributions for Supplemental General State Aid allocations to individual schools, and the net amount available for deposit into the General Fund.

General State Aid
Fiscal Years 2002 – 2012
(Dollars in Millions)

Fiscal Year	Total GSA Claim[1]	Supplemental General State Aid Allocation	Unrestricted GSA General Fund Deposit[2]
2002	$ 787.2	$ 261.0	$ 526.2
2003	768.1	261.0	507.1
2004	840.7	261.0	579.7
2005	910.4	261.0	649.4
2006	962.5	261.0	701.5
2007	1,023.9	261.0	762.9
2008	1,091.1	261.0	830.1
2009	1,139.7	261.0	878.7
2010	1,152.2	261.0	891.2
2011	1,147.1	261.0	886.1
2012[3]	1,120.2	261.0	859.2

(1) Source: Illinois State Board of Education. Net of Illinois State Board of Education audit adjustments.
(2) Reflects moneys available to fund Pledged State Aid Revenues and pledges of State Aid Revenues made in connection with other obligations of the Board.
(3) 2012 reflects budgeted amount; "Total GSA Claim" of $1,120.2 million reflects 5% reduction, discussed above.

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

In the past three fiscal years, the Board has experienced delays in the receipt of certain non-GSA payments due from the State. As of August 31, 2011, the non-GSA payments from the State to the Board were delinquent by approximately $180 million. However, payments of GSA from the State have consistently been received by the Board on time. For a discussion of the impact of these delays on the Board's 2011 operations and 2012 budget, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Overview of Board's Fiscal Year 2012 Budget and Recent Financial Information Concerning the Board."

Pledged Taxes

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

extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Bonds. For additional information concerning the levy and collection of the Pledged Taxes, see "THE REAL PROPERTY TAX SYSTEM – Real Property Assessment, Tax Levy and Collection Procedures."

Application of Pledged State Aid Revenues; Abatement of Pledged Taxes

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

The Trustee shall deposit to the credit of the Interest Deposit Sub-Account any amounts paid by the Board to the Trustee from time to time with instructions for deposit into such Sub-Account. All amounts deposited by the Board to the credit of the Interest Deposit Sub-Account, shall be transferred on the first Business Day of each month until March 1, 2012, to the Interest Sub-Account and applied to the payment of the interest due on the Bonds on those dates as described in the Indenture. All amounts remaining in the Interest Deposit Sub-Account on March 1, 2012, following the transfer required to be made to the Interest Sub-Account on such date as described in the preceding sentence shall be transferred to the Board free and clear of the lien of the Indenture.

On or before February 15 of each year, or such earlier date as may be necessary to permit the Board to lawfully make the abatement of the Pledged Taxes described below (each such date being referred to as a "Deposit Date"), the Board shall deposit to the credit of the Deposit Sub-Account such amounts derived from Pledged State Aid Revenues as shall be necessary and sufficient to cause the amount on deposit in said Sub-Account to equal the then applicable Pledged Revenues Account Requirement

The Pledged Revenues Account Requirement on each Deposit Date is determined as follows:

(i) with respect to the Bonds bearing interest at a Short 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 assumed interest rate equal to the greater of (i) 4.5% or (ii) 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 on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds, (B) the known interest to accrue with respect to any Bonds in the Flexible 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) with respect to Bonds bearing interest at a 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 Fixed Rate or Fixed Rates then borne by such Bonds, 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) with respect to any Credit Provider Bonds, an amount equal to the sum of (A) one year's interest on such Credit Provider Bonds based upon the aggregate principal amount of such Credit Provider 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) 8% or (ii) the average Credit Provider Rate for the 12-month period ending on the preceding February 1 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, (i) 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 amounts equal to such Pledged Revenues Account Requirement and (ii) on the March 2 following such Deposit Date, the Trustee shall transfer all amounts on deposit in the Deposit Sub-Account into the Pledged State Aid Revenues Sub-Account.

In the event that on any Deposit Date there has been deposited to the credit of the Deposit Sub-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 Deposit Sub-Account, to provide the funds necessary to satisfy such Pledged Revenues Account Requirement. The Board has covenanted in each Indenture to take all actions necessary to cause a levy and extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Bonds.

If at any time while the Bonds bear interest at a Short Rate or the Credit Provider Rate, the amount on deposit in the Pledged State Aid Revenues Sub-Account shall be insufficient to provide for the payment in full of the principal of and interest on the Bonds to become due during the then-current Bond Year, the Board shall promptly deposit moneys derived from Pledged State Aid Revenues into the Pledged State Aid Revenues Sub-Account in such amounts as shall be necessary to cause the amount on deposit in the Pledged State Aid Revenues Sub-Account to be sufficient to pay (i) the interest to accrue on the Bonds for the remainder of the then-current Bond Year based on the aggregate principal amount of Bonds then Outstanding and an assumed interest rate of 15% and (ii) the principal amount of Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the then-current Bond Year.

Payment of Debt Service on the Bonds

The Trustee shall transfer first from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the Interest Deposit Sub-Account and last from the Pledged State Aid 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 Outstanding Bonds, the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; (ii) to the Principal Sub-Account of the Bond Payment Account on or before each March 1, an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on such date; and (iii) to the Principal Sub-Account of the Bond Payment Account on or before each March 1 on which Bonds are subject to mandatory sinking fund redemption pursuant to the Indenture, the amount required for the payment of the Redemption Price of such Outstanding Bonds then to be redeemed.

All amounts on deposit in the Pledged State Aid Revenues Sub-Account on March 1 of each year, following the transfers required to be made to the Interest Sub-Account and the Principal Sub-Account, as described above, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture.

Indenture – Funds, Accounts and Sub-Accounts

In addition to the Pledged State Aid Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Bonds. See APPENDIX C – "Summary of Certain Provisions of the Amended and Restated Indenture."

1998 Authorization Bonds

The 1998 Authorization Bonds constitute the only Alternate Bonds issued and outstanding under the 1998 Authorization. Taking into account the 1998 Authorization Bonds and previously issued but no longer outstanding bonds issued under the 1998 Authorization, $29,805,000 aggregate principal amount of Alternate Bonds are authorized and unissued under the 1998 Authorization. All of the 1998 Authorization Bonds are Alternate Bonds payable from the State Aid Revenues available under the 1998 Authorization. For additional information, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations."

Additional Bonds Payable From Pledged State Aid Revenues

Pursuant to the Indenture, the Board reserves the right to issue Additional Bonds from time to time payable from (i) all or any portion of the Pledged State Aid Revenues, and/or (ii) any other source of payment which may be pledged under the Debt Reform Act, provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. Any such Additional Bonds shall, to the extent they are secured by Pledged State Aid Revenues, share ratably and equally in the Pledged State Aid Revenues with the Bonds, the Series 2000E Bonds and the Series 2003C Bonds. For additional information see "INTRODUCTION – 1998 Authorization Bonds and Additional Bonds."

Other Additional Indebtedness

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

The Board reserves the right to issue bonds or other evidences of indebtedness payable from the Pledged State Aid Revenues which are subordinate to the Bonds. Such subordinate obligations will be paid from such Pledged State Aid 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.

THE 2011 CREDIT FACILITY AND THE REIMBURSEMENT AGREEMENT

General

The following description is a summary of certain provisions of the 2011 Credit Facility. Such summary does not purport to be a complete description or restatement of the material provisions of the 2011 Credit Facility. Investors should obtain and review a copy of the 2011 Credit Facility in order to

understand all of the terms of such document. The provisions of any Substitute Credit Facility and related reimbursement agreement may be different from those summarized below.

The 2011 Credit Facility

The 2011 Credit Facility is an irrevocable transferable obligation of the 2011 Credit Provider and applies to the Bonds. The 2011 Credit Facility will be issued in an amount equal to the aggregate principal amount of the outstanding Bonds, plus 55 days' interest thereon at the rate of 15% per annum (defined as the "Cap Interest Rate" in the 2011 Credit Facility and the "Interest Coverage Rate" in the Indenture). The Trustee, upon compliance with the terms of the 2011 Credit Facility, is authorized and directed to draw up to (a) an amount sufficient (i) to pay principal of the Bonds when due, whether at maturity or upon any redemption (including mandatory sinking fund redemption), and (ii) to pay the portion of the purchase price of the Bonds tendered for purchase and not successfully remarketed or the purchase price of which has not been received by the Trustee by the time specified in the Indenture (a "Liquidity Drawing"), equal to the principal amount of the Bonds, plus (b) an amount not to exceed 55 days' of accrued interest on such Bonds at the Cap Interest Rate (i) to pay interest on the Bonds when due, and (ii) to pay the portion of the purchase price of the Bonds tendered for purchase and not successfully remarketed or the purchase price for which has not been received by the Trustee, equal to the interest accrued, if any, on such Bonds. Notwithstanding the foregoing, no drawings will be made under the 2011 Credit Facility for Credit Provider Bonds (as defined in the Reimbursement Agreement), for Bonds bearing interest in a mode other than the Weekly Rate (as defined in the Reimbursement Agreement) (the "Covered Rate"), or for Bonds owned by or on behalf of the Board.

The amount available under the 2011 Credit Facility will be automatically reduced to the extent of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing to pay interest on the Bonds (an "Interest Drawing"), the amount available under the 2011 Credit Facility will be automatically reinstated effective on the fifth (5th) day after the date the 2011 Credit Provider honors such drawing, unless the Trustee shall have received from the 2011 Credit Provider written notice by no later than the close of business, on the fourth (4th) day after the date the 2011 Credit Provider honors such drawing that an Event of Default (as defined in the Reimbursement Agreement) under the Reimbursement Agreement has occurred and electing not to reinstate such amount. With respect to a Liquidity Drawing, the 2011 Credit Facility will automatically be reduced by an amount equal to the amount of said drawing.

The 2011 Credit Facility will terminate on the earliest of the 2011 Credit Provider's close of business on (a) the stated expiration date (December 29, 2014, as extended from time to time), for the 2011 Credit Facility securing the Bonds; (b) the date which is fifteen (15) following the date on which the interest rate on all of the Bonds have been converted to bear interest at a rate other than the Weekly Rate (the "Conversion Date"); (c) the date of the 2011 Credit Provider's receipt of a certificate from the Trustee specifying that no Bonds (other than Non-Covered Rate Bonds) remain Outstanding, within the meaning of the Indenture, all drawings required to be made under the Indenture and available under the 2011 Credit Facility have been made and honored, or that an Alternate Credit Facility has been issued to replace the 2011 Credit Facility pursuant to the Indenture and the Reimbursement Agreement; or (d) the date which is fifteen (15) days following the date the Trustee receives a written notice from the 2011 Credit Provider specifying the occurrence of an "Event of Default" under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender of the Bonds.

Reimbursement Agreement

The following description is a summary of certain provisions of the Reimbursement Agreement dated as of December 1, 2011 between the Board and the 2011 Credit Provider (the "Reimbursement Agreement"), pursuant to which the 2011 Credit Facility is issued. Such summary does not purport to be

a complete description or restatement of the material provisions of the Reimbursement Agreement. Investors should obtain and review a copy of the Reimbursement Agreement in order to understand all of the terms of such document. The provisions of any Substitute Credit Facility and related reimbursement agreement may be different from those summarized below.

Events of Default

Pursuant to the Reimbursement Agreement, the occurrence of any of the following events, among others, shall constitute an Event of Default thereunder. Reference is made to the Reimbursement Agreement for a complete listing of all Events of Default:

(a) the Board shall fail to pay, or cause to be paid, when due: (i) any principal of or interest on any Drawing (as defined in the Reimbursement Agreement) or any Advance (as defined in the Reimbursement Agreement); or (ii) any principal of or interest on any Credit Provider Bonds for any reason; or (iii) any other Obligation (as defined in the Reimbursement Agreement) owing to the 2011 Credit Provider thereunder and such failure continues for a period of five (5) Business Days; or

(b) any representation, warranty or statement made by the Board therein or in any Related Document (as defined in the Reimbursement Agreement) to which the Board is a party or in any certificate delivered pursuant thereto shall prove to be untrue in any material respect on the date as of which made or deemed made; or the documents, certificates or statements of the Board (including unaudited financial reports, budgets, projections and cash flows of the Board) furnished to the 2011 Credit Provider by or on behalf of the Board in connection with the transactions contemplated thereby, when taken as a whole, are materially inaccurate in light of the circumstances under which they were made and as of the date on which they were made;

(c) default in the due observance or performance of certain covenants set forth in the Reimbursement Agreement.

(d) default in the due observance or performance of certain other covenants set forth in the Reimbursement Agreement and any such failure cannot be cured or, if curable, remains uncured for 30 days after written notice thereof to the Board;

(e) the Board shall fail to pay when due any principal of or interest on any Parity Bonds (as defined in the Reimbursement Agreement) in an aggregate principal amount in excess of $10,000,000;

(f) any material provision of the Reimbursement Agreement or any Related Document shall at any time for any reason cease to be valid and binding on the Board or any other party thereto (other than the 2011 Credit Provider) or shall be declared to be null and void, or the validity or enforceability thereof shall be contested by an Authorized Officer (as defined in the Reimbursement Agreement) of the Board or such other party thereto or by any Governmental Authority (as defined in the Reimbursement Agreement) having jurisdiction, or the Board or such other party shall deny that it has any or further liability or obligation under any such document and the occurrence of any such event would have a material adverse effect on the security for the Bonds or the Board's ability to pay its obligations under the Reimbursement Agreement or the Credit Provider Bonds;

(g) any provision of the Indenture or the Resolution (as defined in the Reimbursement Agreement) relating to the Board's ability to pay the Obligations or perform its

obligations under the Reimbursement Agreement or the rights and remedies of the 2011 Credit Provider, or any Related Document to which the Board is a party, except for any Remarketing Agreement (as defined in the Reimbursement Agreement) which has been amended or terminated due to a substitution of the Remarketing Agent, or any other material provision thereof shall cease to be in full force or effect, or any Authorized Officer of the Board shall deny or disaffirm the Board's obligations under the Indenture or any other Related Document to which the Board is a party;

(h) One or more final, unappealable judgments against the Board not covered by insurance, or attachments against the property of the Board, the operation or result of which, individually or in the aggregate, equals or exceeds $10,000,000 shall remain unpaid, unstayed, undischarged, unbonded or undismissed for a period of sixty (60) days;

(i) (i) a debt moratorium, debt adjustment or comparable restriction is imposed by a Governmental Authority or court of competent jurisdiction on the repayment when due and payable of the principal of or interest on any debts of the Board; (ii) under any existing or future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, the Board seeks to have an order for relief entered with respect to it or seeking to adjudicate it insolvent or bankrupt or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts; (iii) the Board seeks appointment of a receiver, trustee, custodian or other similar official for itself or for any substantial part of the Board's property, or the Board shall make a general assignment for the benefit of its creditors; (iv) there shall be commenced against the Board any case, proceeding or other action of a nature referred to in clause (ii) above and the same shall remain undismissed for a period of 60 days; (v) there shall be commenced against the Board any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its property which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal, within 60 days from the entry thereof; (vi) the Board takes action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), (iii), (iv) or (v) above; or (vii) the Board shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due;

(j) any of Fitch, Moody's or Standard & Poor's (so long as such Rating Agencies otherwise maintain ratings on the Board's Debt (as defined in the Reimbursement Agreement)) shall have downgraded its rating of any unenhanced Debt of the Board to below "BBB" (or its equivalent), "Baa2" (or its equivalent), or "BBB" (or its equivalent), respectively, or suspended or withdrawn its rating of the same.

Remedies

Upon the occurrence of any Event of Default, the 2011 Credit Provider may exercise under the Reimbursement Agreement any one or more of the following rights and remedies in addition to any other remedies under the Reimbursement Agreement or by law provided:

(a) give notice of the occurrence of any Event of Default to the Trustee (with a copy to the Board) directing the Trustee to cause a mandatory tender of the Bonds pursuant to the terms of the Indenture, thereby causing the 2011 Credit Facility to expire fifteen (15) days thereafter;

(b) pursue any rights and remedies it may have under the Related Documents; or

(c) pursue any other action available at law or in equity.

THE REMARKETING AGREEMENT

Barclays Capital Inc. has been appointed as the Remarketing Agent for the Bonds pursuant to the Indenture and a Remarketing Agreement (the "Remarketing Agent"). The principal office of the Remarketing Agent is 745 Seventh Avenue, 2nd Floor, New York, New York, 10019.

The Remarketing Agent agrees to perform all of the interest rate setting functions for the Bonds assigned to it in the Indenture and to use its best efforts to offer for sale and to sell the Bonds tendered at a price of not less than 100 percent of the principal amount thereof plus accrued interest, if any. The Remarketing Agent shall be under no obligation to remarket Bonds upon the occurrence of an Event of Default under the Indenture or the Reimbursement Agreement.

The Remarketing Agent may be removed at any time by the Board by giving at least 30 calendar days' notice to the Remarketing Agent and the Trustee. The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Remarketing Agreement by giving at least 90 calendar days' notice to the Board and the Trustee. Otherwise, the Remarketing Agreement shall remain in effect until the earlier of the first day all the Bonds bear interest at a Fixed Rate or the payment in full of all the Bonds.

It is the express intention of the Board, the Trustee, and the Remarketing Agent that no purchase, sale or transfer of any Bonds pursuant to the Remarketing Agreement shall constitute or be construed to be the extinguishment of any Bonds or the indebtedness represented thereby or the reissuance of any Bonds or the refunding of any indebtedness represented thereby. The Trustee or the Remarketing Agent in their individual capacity, either as principal or agent may buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any owner of Bonds may be entitled to take with like effect as if it did not act in any capacity under the Remarketing Agreement. The Trustee or the Remarketing Agent in their individual capacity, either as principal or agent may also engage in or be interested in any financial or other transaction with the Board and may act as depositary, trustee, or agency for any committee or body of owners of Bonds or other obligations of the Board as freely as if it did not act in capacity under the Remarketing Agreement or the Indenture.

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

In 1995, the then-existing 15-member Chicago Board of Education (the "Prior Board") was replaced with the Chicago School Reform Board of Trustees of the Board of Education of the City of Chicago, Illinois (the "Reform Board of Trustees"). The Reform Board of Trustees served as the governing board of the School District until June 30, 1999. On July 1, 1999, the Reform Board of Trustees became the Board.

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

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

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

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

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

firm of Booz Allen & Hamilton (n/k/a Booz & Co.). Mr. Ruiz received his JD from The University of Chicago Law School and his Bachelor's Degree in economics and business administration from the University of Illinois at Urbana-Champaign.

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

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

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

Rodrigo A. Sierra is the Founder and Principal of Sierra Strategies, a strategic leadership and positioning consultancy. Previously, Mr. Sierra was the Chief Marketing Officer of Johnson Publishing Company and spent eight years with Integrys Energy Group and its predecessor, Peoples Gas, where he served in a variety of roles including Vice President of Corporate Communications and Public Affairs. From 2000 to 2002, Mr. Sierra served in the cabinet of Chicago Mayor Richard M. Daley as Deputy Mayoral Press secretary and was an integral member of the team that helped to win relocation of Boeing Corporation's global headquarters to Chicago. Mr. Sierra is a founder and steering committee member of Nuestro Futuro, a partnership with the Chicago Community Trust that encourages Latino philanthropy and increased grants to organizations that serve Latinos. He serves on the board of the Puerto Rican Arts Alliance and on the executive committee of the board of the Goodman Theater as well as co-chair of its education committee. He is a member of the Arthur Page Society, the Institute for Politics at Roosevelt University, the Economic Club of Chicago, The Executives' Club of Chicago, the Publicity Club of Chicago and the City Club of Chicago. Mr. Sierra earned an MBA from the Kellogg School of Management through the Executive Master of Business Administration program in June 2008. He holds a Bachelor's Degree in Philosophy from Northwestern University.

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

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

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

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

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

Central Administration

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

Chief Executive Officer..................................	Jean-Claude Brizard
Chief Education Officer	Noemi Donoso
Chief Administrative Officer...........................	Timothy Cawley
Chief Financial Officer...................................	David G. Watkins
General Counsel	Patrick J. Rocks

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

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

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

David G. Watkins is the Chief Financial Officer of the Board, appointed on November 7, 2011. Prior to joining the Board, Mr. Watkins' career spanned 35 years in various roles in business organizations. Mr. Watkins most recently served as Chief Financial Officer for H.D. Smith, a pharmaceutical distribution firm with revenue exceeding $3.5 billion. He also previously served in several capacities at Maritz Inc., a $1.4 billion performance improvement firm, up to and including his tenure as Chief Operating Officer of European Operations where he was based in London. Mr. Watkins was employed at KPMG for twenty years, including the last decade as an assurance partner. Mr. Watkins earned his Bachelor's of Science and Accounting at the University of Illinois at Urbana/Champaign.

Patrick J. Rocks is the General Counsel of the Board. He has served in that office since March 1, 2005. Prior to his current appointment, Mr. Rocks served in various offices in the Office of the Corporation Counsel of the City of Chicago from 1987 to 2005. From November 2002 to February 2005,

he served as First Assistant Corporation Counsel. From May 1998 to November 2002, he served as Deputy Corporation Counsel for the Employment Litigation Division. From December 1993 to May 1998, he served as Chief Assistant Corporation Counsel in the Labor Division. From July 1987 to December 1993, he served as an Assistant Corporation Counsel in the General Litigation and Labor Divisions. Prior to his service with the City of Chicago, Mr. Rocks served as a judicial clerk and was engaged in private practice. Mr. Rocks received his law degree from the John Marshall Law School in 1985 and his Bachelor's degree from Loyola University of Chicago in 1980.

School System

The Chicago Public School system consists of 683 attendance centers consisting of 482 elementary schools, 119 high schools and 82 charter schools serving 402,681 children.

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

School Year	Elementary School	High School	Combined
2010/2011	289,045	113,636	402,681
2009/2010	293,509	115,770	409,279
2008/2009	294,789	113,166	407,955
2007/2008	296,060	112,541	408,601
2006/2007	302,130	111,564	413,694

Capital Improvement Program

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

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

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

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

Educational Reform Initiatives

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

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

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

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

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

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

Chicago Teachers' Union and Other Employee Groups

For its 2010 fiscal year, the Board employed approximately 47,000 persons. Approximately 90% of the Board's employees are represented by seven unions that engage in collective bargaining with the Board. As of June 1, 2010, approximately 74% of the Board's employees were represented by the CTU and approximately 16% were represented by six other unions.

The Board's collective bargaining agreements with the seven labor organizations that represent Board employees are effective from July 1, 2007 to June 30, 2012. Each agreement provides for a 4% increase to the employees' salary schedules in each year of the agreement. The agreement stipulates that the Board must proactively assert on an annual basis that there is funding available in the upcoming fiscal year to pay for such increases. On June 15, 2011, the Board voted to forgo the 4% cost-of-living adjustment based on projected financial strain. The CTU and the Board are engaged in negotiations on the current contract.

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

For a discussion of pension and retirement benefits for eligible employees, see "– Teacher Pension Obligations."

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

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

The Board ended fiscal year 2011 with an audited surplus of $315.8 million in its General Operating Fund. As shown in the table below, fiscal year 2011 revenues were $5,115.9 million, an increase of 7.1% from fiscal year 2010. Expenditures for fiscal year 2011 were $4,910.0 million. A $109.8 million one-time transfer resulted from a bond debt service restructuring implemented in 2010.

On August 24, 2011, the Board adopted its fiscal 2012 budget. For fiscal year 2012, revenues are projected to decrease $246.8 million (5%) to $4,869.1 million. This is primarily the result of the loss of several one-time revenues that were received in fiscal year 2011, including those related to the Personal Property Replacement Tax, and tax increment financing district surpluses. Additionally, federal stimulus funds under the American Reinvestment and Recovery Act (ARRA) ended in fiscal 2011, decreasing the

Board's federal revenues in fiscal year 2012. The State of Illinois, which had delayed certain non-GSA payments to the Board, paid down some of its outstanding obligations to the Board. As of June 30, 2011, the State owed the Board $167.1 million. This compares to $236.0 million the State owed the Board at the end of fiscal year 2010. As of December 6, 2011, the non-GSA payments from the State to the Board were delinquent by approximately $303 million. GSA payments from the State continue to be on time.

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

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

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

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

General Operating Fund Balances

As of June 30, 2011, the Board had an audited fund balance of $740.4 million, of which approximately $219.9 million is reserved for non-spendable and restricted fund balances. Of this, $59.8 million is re-appropriated to the schools as unspent prior-year poverty grant (Supplemental General State Aid) funds. Year-end assigned and unassigned fund balances for fiscal year 2011 are $515.2 million and $5.3 million, respectively. Fiscal year 2012 is projected to end with a $311.0 million assigned fund balance and a $5.3 million unassigned fund balance.

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

	Actual (as of June 30) (2)					Budget
	2007(3)	2008	2009	2010	2011	2012
Revenue:						
Property Taxes	$1,716,516	$1,763,282	$1,867,350	$2,035,938	$1,904,169	$2,038,000
Replacement Taxes	147,403	159,805	132,819	96,816	172,384	103,560
State Aid	1,549,493	1,692,351	1,333,182	1,367,797	1,694,566	1,619,242
Federal Aid	711,963	832,526	1,122,805	1,160,412	1,121,457	977,317
Interest and investment income	61,595	40,905	21,405	3,084	1,920	2,100
Other	95,534	96,816	102,107	111,985	221,391	128,891
Total Revenue	$4,282,504	$4,585,685	$4,579,668	$4,776,032	$5,115,887	$4,869,110
Expenditures:						
Salaries:						
Teachers	$1,924,109	$1,885,400	$1,975,940	$2,026,257	$2,023,510	$2,082,768
Career Services / Education Services Personnel	535,148	559,741	597,533	604,042	610,741	628,859
Commodities:						
Energy	77,133	86,759	92,354	78,682	83,356	82,590
Food	83,798	83,326	89,592	93,088	93,766	112,249
Other Commodities	112,789	136,454	131,926	119,590	121,852	136,121
Services:						
Professional Services	322,252	360,277	440,921	381,851	450,127	374,771
Charter schools	141,030	189,006	256,154	326,322	377,755	417,796
Transportation	97,076	102,828	109,351	109,349	107,530	110,254
Other	124,689	135,032	131,669	130,116	132,610	124,826
Building and sites	32,978.00	37,009	34,784	31,864	37,360	37,865
Fixed Charges:						
Teachers' pension	282,488	350,483	392,801	475,628	306,111	339,336
Career Services / Education Services Personnel pension	83,317	89,776	93,791	96,913	102,158	99,796
Hospitalization and dental insurance	250,765	260,386	299,206	311,048	353,878	348,352
Other Benefits	58,134	66,596	70,414	79,070	82,855	84,499
Other Fixed Charges	20,663	51,612	26,343	32,322	26,343	130,118
Total Expenditures	$4,146,369	$4,394,685	$4,742,779	$4,896,142	$4,909,952	$5,110,200
Revenue (less Than) Expenditure	$136,135	$191,000	$(163,111)	$(120,110)	$205,935	$(241,090)
Transfers in	1,904	3,813	20,389	17,851	109,830	–
Net Change in Fund Balance	138,039	194,813	(142,722)	(102,259)	315,765	(241,090)
Fund Balance, beginning of period	495,897	474,783	669,596	526,874	424,615	740,380
Fund Balance, end of period	$633,936	$669,596	$526,874	$424,615	$740,380	$499,290
Composition of Fund Balance						
Non-Spendable	$ 8,139	$ 7,063	$ 4,918	$ 5,006	$ 1,972	$ 5,025
Restricted	185,022	155,003	134,381	201,070	217,891	178,000
Assigned for educational services	233,200	258,000	181,200	-	289,000	289,000
Assigned for appropriated fund balance	73,000	100,000	60,830	190,000	181,300	-
Assigned for encumbrances	38,447	80,377	81,711	24,655	44,924	21,972
Unassigned	96,128	69,153	63,834	3,884	5,293	5,293
Total Ending Fund Balance	$633,936	$669,596	$526,874	$424,615	$740,380	$499,290

(1) The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting for its Governmental Funds. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2011."
(2) The fund balance classifications in the table have been revised from their respective Comprehensive Annual Financial Reports to reflect new fund balance categories to be implemented in the fiscal 2011 audit, as required by Governmental Accounting Standards Board No. 54.
(3) Fund balances for the year ended June 30, 2007 have been retrospectively adjusted to reflect the change in the recognized accrual period for certain revenue from 90 days to 30 days.

Outstanding Debt Obligations

Long-Term Debt Obligations. The Board has approximately $5.9 billion aggregate principal amount of outstanding long-term debt, consisting of approximately $5.6 billion aggregate principal amount of Alternate Bonds and approximately $318.3 million aggregate principal amount of leases with the Public Building Commission (the "PBC Leases"). See "Board's Overlapping Debt Schedule" below. 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 GOVERNMENTAL UNITS – Other Public Bodies – The Public Building Commission of Chicago." To provide for payment of the lease rentals under the PBC Leases, the Board has established lease payment debt service fund accounts with a lease payment trustee. Under the School Code and resolutions of the Board of Education establishing those trust accounts, the Board has levied a separate tax unlimited as to rate or amount on real property within the School District to pay the lease rentals under the PBC Leases. Tax receipts of the Board attributable to the Board's PBC Leases are required to be paid by the County collector directly to the lease payment trustee and deposited in a fund account to be used for the payment of the applicable lease rentals under the PBC Leases when due. Investment income on deposits in the fund accounts established to make lease rentals under the PBC Leases is paid to the Board to the extent not needed to meet the lease obligations for which the particular fund account is established.

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Board's Overlapping Debt Schedule
as of December 20, 2011
(Dollars in Thousands)

Direct Debt			
Series 2000B			$ 95,100
Total Prior Bonds			5,538,570
Leases Securing PBC Bonds (principal component)			318,280
Total Direct Debt			$ 5,951,950
Overlapping Debt[1]	Amount	Percent Applicable	Amount Applicable
City	$7,500,930	100.00%	$ 7,500,930
Chicago Park District[2]	924,170	100.00%	924,170
Water Reclamation District	3,466,464	49.18%	1,704,807
County	3,709,260	48.17%	1,786,751
Forest Preserve District	97,810	48.17%	47,115
Total Overlapping Debt			$ 11,963,773
Total Direct and Overlapping Debt			$17,915,723
Population (2010)			2,695,598[4]
Equalized Assessed Valuation (2010)[3]			$82,092,485[5]
Estimated Fair Market Value (2009)			$280,288,730[6]

	Per Capita[7]	% EAV	% FMV
Direct Debt	$ 2,208	7.25%	2.124%
Total Direct and Overlapping Debt	6,646	21.82%	6.392%

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

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BOARD'S DEBT SERVICE SCHEDULE[1]

Calendar Year	Prior Bonds[2]	PBC Leases	The Bonds[2]	Total Annual Debt Service
2012	$325,715,214	$52,318,625	$4,279,500	382,313,339
2013	431,239,774	52,359,513	4,279,500	487,878,787
2014	447,401,432	52,430,550	6,039,000	505,870,982
2015	447,348,622	52,467,613	6,055,750	505,871,985
2016	439,558,582	52,519,550	6,263,500	498,341,632
2017	440,827,392	52,600,125	6,457,750	499,885,267
2018	437,947,031	52,664,600	6,540,750	497,152,381
2019	458,662,541	30,635,500	7,396,750	496,694,791
2020	485,835,959	–	7,719,000	493,554,959
2021	504,531,445	–	7,823,250	512,354,695
2022	499,357,383	–	7,914,000	507,271,383
2023	484,640,588	–	7,991,250	492,631,838
2024	492,441,674	–	8,055,000	500,496,674
2025	548,043,072	–	8,203,000	556,246,072
2026	487,418,774	–	8,235,250	495,654,024
2027	489,768,455	–	8,351,750	498,120,205
2028	494,328,517	–	8,450,250	502,778,767
2029	494,740,417	–	8,433,000	503,173,417
2030	468,115,126	–	8,597,750	476,712,876
2031	467,843,147	–	8,740,000	476,583,147
2032	178,964,352	–	8,077,750	187,042,102
2033	145,561,785	–	–	145,561,785
2034	144,790,641	–	–	144,790,641
2035	141,365,725	–	–	141,365,725
2036	141,366,896	–	–	141,366,896
2037	141,369,626	–	–	141,369,626
2038	141,364,743	–	–	141,364,743
2039	141,367,324	–	–	141,367,324
2040	141,368,866	–	–	141,368,866
2041	141,360,500	–	–	141,360,500
	$10,804,645,603	$397,996,075	$153,903,750	$11,356,545,429

(1) Debt service payments include principal and interest due to and including the following January 1.

(2) Interest on variable rate bonds is calculated at an assumed rate of 4.5% per annum, although actual rates may vary. Interest on Bonds that are the subject of an interest rate swap is calculated at the applicable swap rate. See "– Board's Interest Rate Swap Agreements" below.

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

	2007	**2008**	**2009**	**2010**	**2011**
Assessed Value[1]	$69,517,264	$73,651,158	$80,983,239	$84,592,286	$82,092,485
Debt Limit	9,593,382	10,163,860	11,175,687	11,673,736	11,328,763
General Obligation	658,947	606,009	553,134	498,593	446,719
Less: Amount set aside for repayment of bonds	(37,322)	(36,238)	(34,719)	(16,042)	(36,440)
Total Net Debt applicable to Debt Limit[2]	621,625	569,771	518,415	482,551	410,279
Legal debt margin	$8,971,758	$9,594,089	$10,657,272	$11,191,184	$10,918,484
Total net debt applicable to the limit as a percentage of Debt Limit	6.48%	5.61%	4.64%	4.13%	3.62%

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

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Board's Interest Rate Swap Agreements

The Indenture permits the Board to enter into one or more interest rate swap agreements with respect to the Bonds. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Bonds. In connection with the refunding of the Series 2000BCD Bonds, the Board expects to transfer the Swap Agreement entered into in connection with the Series 2000C Bonds in order to synthetically fix the rate of interest on the Bonds

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

Series	Counterparty	Rating of Counterparty (Moody's/ Standard & Poor's) (1)	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2010A	Royal Bank of Canada	Aa1/AA-	3/1/2007	$48,910,000	3/1/2035	3.825%	70% of LIBOR
2005A	Loop Financial Products I LLC (2)	Aa3/A+	11/1/2005	$116,151,000	12/1/2031	BMA Index	70% of LIBOR + 52.4 bp
	Merrill Lynch Capital Services, Inc.	Baa1/A	11/1/2005	$77,434,000	12/1/2031	BMA Index	80.76% of LIBOR
2010B	Loop Financial Products I LLC (2)	Aa3/A+	12/8/2005	$157,055,000	3/1/2036	3.6617%	70% of LIBOR
2008A	Royal Bank of Canada	Aa1/AA-	5/13/2008	$162,785,000	12/1/2028	5.25%	70% of LIBOR + 28 bp
	Bank of America , N.A	A2/A+	5/13/2008	$100,000,000	12/2/2030	5.25%	70% of LIBOR + 28 bp
2008B	Goldman Sachs Bank USA (3), (4)	A1/A	1/27/2010	$95,350,000	3/1/2034	3.771%	70% of LIBOR
	Goldman Sachs Bank USA(4)	A1/A	5/13/2008	$90,000,000	3/1/2034	3.771%	70% of LIBOR
2009A	Loop Financial Products I LLC (4)	Aa3/A+	3/10/2009	$130,000,000	3/1/2026	3.6617%	70% of LIBOR
2009B	Royal Bank of Canada	Aa1/AA-	6/25/2009	$75,410,000	3/1/2035	3.825%	70% of LIBOR
2011D	Royal Bank of Canada	Aa1/AA-	3/1/2007	$61,100,000	3/1/2032	3.823%	70% of LIBOR

(1) As of December 20, 2011.
(2) Loop Financial Products I LLC is provided credit support by Deutsche Bank AG.
(3) On January 27, 2010, the Swap Agreement was novated to Goldman Sachs Bank USA from Lehman Brothers Special Financing Inc.
(4) The swaps are guaranteed by The Goldman Sachs Group, Inc.

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

The Board will be exposed to "basis risk" should the rate paid on the bonds subject to an Existing Swap Agreement exceed the rate payable to the Board pursuant to the related Existing Swap Agreements. Should any adverse basis differential occur while an Existing Swap Agreement is in effect, the rate paid on the bonds that are subject to the Existing Swap Agreement will be higher than the expected fixed rate, and therefore the expected interest cost to the Board may be higher.

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

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

Teacher Pension Obligations

Teacher Pension Funding Overview. Pension payments have been and will continue to be a significant budget pressure for the Board. The Board experienced a nearly tenfold increase in pension contributions during fiscal years 2006 through 2010 as the Pension Fund's funded ratio fell below 90% (the statutory required funding level, as described below under "– *Legal Authority and Funding Requirements*"), due to factors including investment losses, liability increases, and an increased number of retirees. The fiscal year 2011 unfunded actuarial liability climbed to $6.8 billion against assets of $10.1 billion resulting in a funded ratio of 59.9%. As detailed in Table 3 below, the funded ratio is projected to decline to a low of 55.0% by fiscal year 2013. This percentage (55.0%) is projected to occur in fiscal years 2013, 2024, 2025, and 2026; all other years are projected to exceed this low.

Legislative changes in 2010 (Public Act 96-0889, passed March 24, 2010), provided partial funding relief to the Board for fiscal years 2011 through 2013 by reducing the Board's pension contribution payments to approximately $200 million per year. Although these payments are significantly greater than the 2006 payment of $35.2 million, they provide relief in comparison to the $325 million contribution in 2010 and the $534.2 million 2014 projected contribution requirement. Public Act 96-0889 also provided certain reforms to the Board's teacher pension system by reducing benefits for new hires; it increased the minimum retirement age; reduced annual cost of living adjustments (i.e. automatic salary increases); changed the benefit calculations; capped total pensionable salary; and suspended retirement benefits if the beneficiary takes another job with a pension. While these changes are meaningful, more structural reform may be necessary to address fiscal pressure in the Pension Fund.

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

Source Information. Except as discussed under "– *Recent Reports Regarding the Pension Fund*," and certain information derived from the Comprehensive Annual Financial Reports of the Chicago Public Schools, the information contained under the heading "Teacher Pension Obligations" relies on the Public School Teachers' Pension and Retirement Fund of Chicago, Actuarial Valuation as of June 30, 2002 through 2011 (the "2011 Actuarial Valuations") prepared by Goldstein & Associates, Actuaries and

Consultants, independent actuaries engaged by the Pension Board (the "Actuaries") (see APPENDIX B) and the comprehensive annual financial reports of the Pension Fund for the fiscal year ending June 30, 2010 (the "Pension Fund 2010 CAFR") prepared by the Pension Fund's independent auditors KPMG LLP, Chicago, Illinois (the "Pension Fund Auditors") (the 2011 Actuarial Valuations and the Pension Fund 2010 CAFR are referred to as the "Source Information"). The Board has not independently verified the Source Information and makes no representations nor expresses any opinion as to the accuracy of the Source Information. The Pension Fund 2010 CAFR and the 2011 Actuarial Valuations are the most recent audit and actuarial valuation available to the Board. The Pension Fund 2010 CAFR states that questions about any information provided in that report should be addressed to: Public School Teachers' Pension and Retirement Fund of Chicago, ATTN: Executive Director, 203 North LaSalle Street, Suite 2600, Chicago, IL 60601-1231.

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

Chicago Teachers' Pension Fund. Pension benefits for eligible teachers and administrators of the Board are provided under a cost-sharing multiple-employer defined benefit plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago, a separate legal entity (the "Pension Fund"), to which the Board is the main contributor along with approved City of Chicago charter schools. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2011" – Note 12.

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

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

Article 17 of the Illinois Pension Code governs the retirement, survivor and disability benefits provided by the Pension Fund and establishes the statutorily required contributions from the Board, the State of Illinois and participating employees. Board (and State) contributions are required (the "Statutory Required Contributions") only if the actuarially determined value of the assets to its actuarially determined

accrued liabilities (the "Funded Ratio") is less than 90%. The Illinois Pension Code does not require that assets of the Pension Fund at any time equal or exceed the actuarially determined accrued liabilities of the Pension Fund. The Statutory Required Contributions are substantially less than and do not conform with the requirements of GASB 25. See "*– Statutory Funding Plan Not in Accordance with GASB 25*."

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

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

- Increased the minimum age at which an employee may retire with unreduced benefits to age 67, from age 60 (or even younger based on a formula combining the age of the employee and the number of years of service);

- Reduces the cost of living adjustment to the lower of 3% or 50% of the change in the Consumer Price Index for all urban consumers, whichever is lower, and eliminates compounding for employees hired after January 1, 2011;

- Calculates benefits based on the highest continuous eight years of compensation in the employee's last 10 years of employment for employees hired after January 1, 2011;

- Caps the salary on which a pension may be calculated at $106,800 (subject to certain adjustments for inflation); and

- Suspends retirement annuities if the annuitant accepts another public sector job covered by a public retirement system.

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

Members and Member Contributions. As of June 30, 2011, the Pension Fund included 59,585 members consisting of 25,199 retirees and beneficiaries currently receiving benefits, 4,253 terminated members entitled to benefits but not yet receiving them, 21,027 vested current members and 9,106 nonvested current members. The Pension Fund's active contributors make annual contributions to the Pension Fund from their salaries which contributions are currently set at 9% of covered payroll. As part of its collective bargaining agreement with the Chicago Teachers Union ("CTU"), the Board pays a substantial portion of the employee contribution in an amount equal to 7% of covered payroll.

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

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

State and Board Required Payroll Contributions. The Illinois Pension Code requires that the State and Board make an annual contribution to the Pension Fund equal to a defined percentage of total teacher payroll (0.544% of payroll for the "State Payroll Contribution" and 0.580% of payroll for the Board contribution for the "Board Payroll Contribution"). These contributions are not required in those years in which the Pension Board has certified that the Pension Fund is at least 90% funded. The required contributions based on payroll for fiscal year 2012 are $11,001,000 for the State and $11,729,000 for the Board.

State Appropriation Contributions. The State has historically made contributions to the Pension Fund from state appropriations in the amount of $65,000,000 per year in addition to the State's required statutory contributions. These contributions were in furtherance of provisions of the Illinois Pension Code adopted in 1998 regarding the goal and intention of the State to make annual contributions to the Pension Fund in an amount that is between 20% and 30% of the amount of the annual State contribution to the other teachers' retirement system in the State. For fiscal years 2010 and 2011 the State appropriation was reduced by approximately 50%. The State did not make an appropriation in excess of required statutory contributions of $10.4 million for its fiscal year 2012. The Board does not anticipate that the State will make contributions in excess of its statutory contributions in the future.

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

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The following table provides historical contribution information and the Actuarially Required Contribution (as hereinafter defined) for fiscal years 2002-2011.

Table 1

Historical Contributions

(All dollar amounts are in millions)

Fiscal Year	Employee Contributions	State Appropriations and Payroll Contributions(1)	BOE Contributions(2)	Total Employer Contributions	Actuarially Required Contribution (ARC)(3)
2002	$146.5	$65.0	$10.3	$75.3	$178.9
2003	144.1	65.0	13.2	78.2	160.2
2004	140.4	0.0	85.3	85.3	203.0
2005	158.6	65.0	9.7	74.7	258.9
2006	158.6	74.9	35.2	110.1	328.4
2007	148.2	75.2	92.0	167.2	370.2
2008	161.2	75.2	149.9	225.1	290.1
2009	166.8	74.8	188.3	263.1	292.1
2010	161.2	37.6	324.6	362.2	355.8
2011	167.0	10.4	168.0	178.4	425.6

Source: Chicago Public Schools Comprehensive Annual Financial Reports for fiscal years ended June 30, 2002-2011

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

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

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

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

Funded Status of Pension Fund. As of the end of fiscal year 2011, the Pension Fund had liabilities of $16,940,626,445 and assets of: (i) $10,140,639,494 if valued on an actuarial basis (using the "Asset Smoothing Method" (as described below), or (ii) $10,344,086,736 if valued based on market value. This results in an aggregate Unfunded Actuarial Liability of the Pension Fund of approximately $6.8 billion on an actuarial basis (using the Asset Smoothing Method), and $6.6 billion on a market value basis and Funded Ratios of 59.9% on an actuarial basis (using the Asset Smoothing Method) and 61.1% on a market value basis. The fiscal 2011 Actuarial Liability represents an increase of $620.9 million compared to the Actuarial Liability of $16.3 billion as of June 30, 2010 resulting in an increase of the total Unfunded Actuarial Liability from $5.4 billion to $6.8 billion during the year. Additional

information regarding the financial condition of the Pension Fund, including the actuarial value of assets and actuarial liability can be found in the 2011 Actuarial Valuation. Information in the Actuarial Valuation regarding the reconciliation of change in unfunded actuarial liability shows the impact of such factors as salaries, funding status and investment returns. See APPENDIX B – "Pension Fund Actuarial Valuation for Fiscal Year 2011" – Exhibits 3, 4 and 6.

The following table summarizes the Actuarial Value of Assets, Actuarial Accrued Liability, Unfunded Actuarial Accrued Liability and Funded Ratio of the Pension Fund for fiscal years 2002-2011 and the Annual Covered Payroll.

Table 2

Funded Status[(1)]

(All dollar amounts are in thousands)

Fiscal Year	Actuarial Value of Assets	Total Actuarial Liability - Projected Unit Credit	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Annual Covered Payroll[(2)]
2002	$10,619,061	$11,025,482	$ 406,421	96.3%	$1,759,046
2003	10,494,755	11,411,528	916,774	92.0%	1,706,205
2004	10,392,193	12,105,681	1,713,487	85.8%	1,767,631
2005	10,506,471	13,295,876	2,789,405	79.0%	1,968,612
2006	10,947,998	14,035,627	3,087,629	78.0%	1,944,358
2007	11,807,101	14,677,184	2,870,084	80.4%	1,863,182
2008	12,114,406	15,203,741	3,089,334	79.7%	1,914,559
2009	11,542,948	15,683,242	4,140,294	73.6%	1,996,194
2010	10,952,275	16,319,744	5,367,469	67.1%	2,107,934
2011	10,140,639	16,940,626	6,799,987	59.9%	2,090,132

Sources: Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation for fiscal years ending June 30, 2002-2011.
Comprehensive Annual Financial Reports of the Pension Fund for the fiscal year ended June 30, 2010.

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

(2) Annual Covered Payroll figures from Chicago Public Schools Comprehensive Annual Financial Reports for fiscal years ended June 30, 2001-2009 (except for 2010 and 2011 figures which were derived from the Actuarial Valuations for the fiscal years ended June 30, 2010 and June 30, 2011).

The following are projected required contributions, liabilities, assets, unfunded liability and funded ratio for the Pension Fund prepared by the Actuaries and reflecting the impact of P.A. 96-0889. See APPENDIX B – "Pension Fund Actuarial Valuation for Fiscal Year 2011" – Exhibit 7.

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Table 3

Projection of Contributions, Liabilities and Assets[1]
(Board of Education contributions are based on Public Act 96-0889.)
(All dollar amounts are in millions. Actuarial Liability and asset figures as of end of year.)

Fiscal Year	Employee Contributions	Required Employer Contributions	Additional State Contribution	Additional BOE Contribution	Required Board of Education Contributions[2]	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2012	$175.8	$214.7	$11.0	$11.7	$192.0	$17,417.0	$9,605.6	$7,811.4	55.2%
2013	180.8	218.6	10.9	11.7	196.0	17,905.4	9,854.1	8,051.2	55.0
2014	186.5	557.5	11.3	12.0	534.2	18,406.7	10,393.1	8,013.7	56.5
2015	192.4	575.1	11.6	12.4	551.1	18,921.9	10,643.6	8,278.3	56.3
2016	198.4	593.3	12.0	12.8	568.5	19,452.1	10,902.6	8,549.6	56.0
2017	204.6	611.9	12.4	13.2	586.3	19,996.8	11,169.4	8,827.5	55.9
2018	211.0	630.8	12.8	13.6	604.5	20,556.7	11,444.7	9,112.0	55.7
2019	217.5	650.5	13.2	14.0	623.4	21,133.8	11,730.5	9,403.3	55.5
2020	224.3	671.1	13.6	14.5	643.1	21,730.3	12,029.2	9,701.0	55.4
2021	231.4	692.5	14.0	14.9	663.6	22,349.4	12,344.1	10,005.4	55.2
2022	238.6	714.3	14.4	15.4	684.5	22,991.8	12,675.9	10,315.9	55.1
2023	245.9	736.9	14.9	15.9	706.1	23,658.8	13,026.5	10,632.3	55.1
2024	253.4	760.2	15.4	16.4	728.4	24,351.4	13,397.7	10,953.7	55.0
2025	260.9	783.6	15.8	16.9	750.9	25,069.6	13,789.6	11,280.0	55.0
2026	268.4	807.5	16.3	17.4	773.7	25,812.9	14,202.7	11,610.2	55.0

Source: Public School Teachers' Pension and Retirement Fund of Chicago Actuarial Valuation as of June 30, 2011 (Exhibit 7).

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

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

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

The 2011 Actuarial Valuations assume an investment rate of return on the assets in the Pension Fund. For the last ten fiscal years the Pension Fund assumed an investment rate of return of 8.0%. Due to the volatility of the marketplace, however, the actual rate of return earned by the Pension Fund on its assets may be higher or lower than the assumed rate. The 2011 Actuarial Valuations show actual rates of return on the Pension Fund assets for fiscal year 2011 to be 24.7%.

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

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

Use of Estimates and Assumptions. The Actuarial Valuations of the Pension Fund use a variety of estimates and assumptions to calculate the Actuarial Liability and the Actuarial Value of Assets. No assurance can be given that any of the assumptions underlying the Actuarial Valuations will reflect the actual results experienced by the Pension Fund. Actual results could differ from those estimates and assumptions. Variances between the assumptions and actual results may cause an increase or decrease in the Actuarial Value of Assets, the Actuarial Liability, the Unfunded Actuarial Liability, the Funded Ratio or the Actuarially Required Contribution, as defined below. Certain of these assumptions include mortality rates, termination rates, disability rates, retirement rates, salary progression, interest rates, marital status, spouse's age and total service credit at retirement. For additional information on these assumptions, please see the APPENIDIX C – Pension Fund Actuarial Valuation for Fiscal Year 2011."

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

Asset Smoothing Method of Valuation. The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 25, which establishes standards of financial reporting for governmental pension plans. Under GASB Statement No. 25, the actuarial value of assets to be used for determining a plan's funded status and annual required contribution needs to be market related. In determining the actuarial value of assets, smoothing changes in the market value of assets over a period of three to five years is considered to be appropriate. The asset values used for the 2011 Actuarial Valuations by the Actuaries to determine required Board and State contributions were based on the asset information contained in the Pension Fund 2010 CAFR. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of four years.

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

Although the Actuarial Valuation is prepared in accordance with generally accepted actuarial principles and practices, the Required Annual Statutory Contribution is computed in accordance with the Illinois Pension Code (the "Statutory Funding Plan"). As the Statutory Funding Plan does not conform with GASB, the Required Annual Statutory Contribution certified by the Actuaries in the Actuarial

Valuation differs from the Actuarially Required Contribution[1] (defined below) that would be required under GASB. The difference between GASB's requirements and the Illinois Pension Code requirements are discussed in "*—Statutory Funding Plan Not in Accordance with GASB 25*" below.

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

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

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

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

The Actuarial Valuation uses a method of valuation called the "Asset Smoothing Method" to calculate the Actuarial Valuation of Assets. See "*– Asset Smoothing Method of Valuation*." Asset smoothing delays recognition of gains and losses, thereby providing an Actuarial Value of Assets that does not reflect the true value of pension plan assets at the time of measurement. As a result, presenting the Actuarial Value of Assets as determined under the Asset Smoothing Method may provide a more or less favorable presentation of the current financial position of a pension plan than would a method that

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

recognizes gains and losses annually. On June 16, 2010, GASB released a statement seeking comment on proposed changes to its public pension accounting standards. Among other significant changes to pension accounting, these proposed changes would restrict usage of the Asset Smoothing Method for accounting purposes. If the proposed changes are implemented and the Asset Smoothing Method continues to be used, it would constitute an additional departure from the methods required by GASB 25, as discussed below.

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

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

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

Recent Reports Regarding the Pension Fund. The Commission on Government Forecasting and Accountability ("COGFA") prepared a report on the financial condition of the Pension Fund as of June 30, 2009, in a report dated November 2010 (the "COGFA Report"). COGFA is a bipartisan, joint legislative commission intended to provide the General Assembly with information relevant to the State's economy, taxes, and other sources of revenue and debt obligations of the State. Among COGFA's list of specific responsibilities is to make an annual estimate of public pension funding requirements and to prepare pension impact notes. Furthermore, COGFA has a mandate to report to the General Assembly on

economic trends in relation to long-range planning and budgeting and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as the same may affect the State. As a result of these responsibilities, COGFA issues several reports on an annual basis, including the COGFA Report, which provides an overview of the financial condition of the Pension Fund. The COGFA Report provides significant information on the funded status of the Pension Fund and historical and projected information with respect to the Pension Fund and a history of pension legislation. COGFA does not make findings in the COGFA Report.

Pensions for Other Board Personnel

Overview. Employees of the School District that are not members of the Pension Fund participate in the Municipal Employees' Annuity and Benefit Fund of Chicago (the "Annuity Fund") which is considered a cost-sharing defined benefit, single employer plan. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2011" – Note 12. Except as described below in section captioned "*Members and Member Contributions*," the Board makes no direct contributions to the Annuity Fund.

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

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

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

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

Contribution"). For the past eight years the Annuity Fund Statutory Required Contribution has been less than the Annual Required Contribution and does not conform with the requirements of GASB 25.

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

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

Other Post-Employment Benefits and Other Board Liabilities

Retiree Health Insurance Program. Eligible teacher and administrator retirees of the Board are provided healthcare benefits under a plan administered and funded by the Pension Fund (the "Health Insurance Program"). Current State law limits the amount that the Pension Fund may contribute to the Health Insurance Program to $65,000,000 annually. By statute, the Pension Fund cannot contribute more than 75% of the total health care premiums for retirees, and in 2011, the Pension Fund reduced the subsidy to 60%. This spending limit has changed several times within the last twenty years and is subject to further change if new legislation is passed.

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

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

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

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

under the Health Insurance Program, without any assumption as to a limit on the amount the Pension Fund may divert to the Health Insurance Program.

Sick Pay Benefits. In addition to the Pension and Health Insurance benefits noted above, as of June 30, 2011, the Board had $459,823,000 in accrued sick pay benefits. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2011" – Note 11.

Debt Management Policy

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

A copy of the Debt Policy is available at the Board's website http://policy.cps.k12.il.us/documents/404.1.pdf. The Debt Policy may be subsequently amended or modified by the Board, without notice to or consent of the owners of the Bonds. The locations of the Board's Debt Policy and Investment Policy (below) are included herein solely for general background purposes and for the convenience of Owners. In no event is such information or any other information on the Board's website incorporated herein by reference, and the Underwriter are not responsible for the accuracy of the information contained on the Board's website.

Investment Policy

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

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

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

There are seven major units of local government located in whole or in part within the boundaries of the School District, each of which (i) is separately incorporated under the laws of the State, (ii) has an independent tax levy, (iii) derives its power and authority under the laws of the State, (iv) maintains its

own financial records and accounts and (v) is authorized to issue debt obligations. These units are: the City; the Chicago Park District; Community College District Number 508; Cook County; the Forest Preserve District of Cook County; and the Metropolitan Water Reclamation District of Greater Chicago. Each of the foregoing governmental units levies taxes upon property located in the City, and, in some cases, in other parts of Cook County as well. For additional information about the Board, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO." Information about these other units of local government is set forth below.

Major Units of Government

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

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

Community College District Number 508 (the "Community College District") maintains a system of community colleges within the City. The Community College District is governed by a seven-member board, appointed by the Mayor with the approval of the City Council.

Cook County (the "County") is a home rule unit of government under the Illinois Constitution, and includes virtually all of the City, plus numerous surrounding suburbs and unincorporated areas. The County is governed by a board of 17 Commissioners, each elected for four-year terms from one of 17 districts. The voters of the entire County elect a number of County Officials, including the President of the Board of Commissioners, the County Sheriff, the County Assessor, the County Clerk, the State's Attorney and the County Treasurer.

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

The Metropolitan Water Reclamation District of Greater Chicago (the "Water Reclamation District") includes virtually all of the City and most of the County. The Water Reclamation District constructs, maintains and operates sewage treatment plants and certain sanitary sewers and constructs and maintains drainage outlets. The Water Reclamation District is governed by a nine-member board elected at-large by the voters of the Water Reclamation District.

Interrelationships of These Bodies

The governmental units and other public bodies described above, and the Chicago School Finance Authority described below, share in varying degrees a common property tax base with the Board. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – *Board's Overlapping Debt Schedule*." However, they are all separate legal and financial units, and the financial condition or circumstances of any one unit does not necessarily imply similar financial conditions or circumstances for the Board.

Other Public Bodies

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

The Public Building Commission of Chicago (the "PBC") is a municipal corporation authorized to acquire, construct and improve public buildings and facilities for use by one or more of the local governmental units. The PBC issues bonds to finance its various projects and then leases its facilities to certain governmental units, including the Board. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board's Overlapping Debt Schedule."

The Chicago Transit Authority (the "CTA") is a municipal corporation empowered to acquire, construct, own, operate and maintain a transportation system in the City and portions of the County. The CTA is governed by a seven-member board. The CTA may not levy real property or other taxes.

The Regional Transportation Authority (the "RTA") is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six-county area of northeastern Illinois, including Cook County. The RTA is governed by a 16-member board, consisting of City and suburban members appointed by elected officials in the six-county RTA region. The RTA may not levy real property taxes.

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

Chicago School Finance Authority

In 1979 and early 1980, the Board experienced financial difficulties. In January 1980, as part of a plan to address these financial difficulties, the Illinois General Assembly established the Chicago School Finance Authority (the "Authority"). Prior to the adoption of the 1995 Amendatory Act, the Authority was authorized to exercise certain financial oversight and control powers with respect to the Board. Effective with the passage of the 1995 Amendatory Act, the Authority's financial oversight and control powers were suspended until July 1, 1999. The suspension of these control powers was extended until December 31, 2010, but were to become inoperable if the Authority ceased to exist prior to that date. In accordance with the law, the Authority ceased to exist in June 2010, one year after all bonds and notes issued by it were discharged.

THE REAL PROPERTY TAX SYSTEM

Real Property, Assessment, Tax Levy and Collection Procedures

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

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

Assessment. The Cook County Assessor (the "Assessor") is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was reassessed in tax year 2009 and will be reassessed in 2012. The suburbs in the northern and northwestern portions of the County were reassessed in tax year 2010. The suburbs in the western and southern portions of the County will be reassessed in tax year 2011.

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

The Cook County Board of Commissioners has adopted various amendments to the Classification Ordinance, pursuant to which the Assessed Valuation of real property is established. Among other things, these amendments have reduced certain property classification percentages, lengthened certain incentive renewal periods of classifications and created new property classifications.

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

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

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Review may file an objection in the Circuit Court of Cook County similar to the previously described judicial review procedure but with a different standard of proof than previously required. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct any factual error, and thus reduce the amount of taxes due, by issuing a Certificate of Error.

In a series of decisions, the PTAB reduced the assessed valuations of certain commercial and industrial property in the County based upon the application of median levels of assessment derived from

Illinois Department of Revenue sales-ratio studies instead of utilizing the assessment percentages provided in the Classification Ordinance. On appeal, the Illinois Appellate Court determined that it was improper for the PTAB, on its own initiative, to use the sales-ratio studies when such studies were not even raised as an issue by the taxpayer before the Board of Review or in its appeal to the PTAB.

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

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

The Equalized Assessed Valuation for each parcel is the final property valuation used for determination of tax liability. The aggregate Equalized Assessed Valuation for all parcels in any taxing body's jurisdiction, after reduction for all applicable exemptions, plus the valuation of property assessed directly by the State, constitutes the total real estate tax base for the taxing body and is the figure used to calculate tax rates (the "Assessment Base"). The Equalization Factor for a given year is used in computing the taxes extended for collection in the following year. The Equalized Assessed Valuation used to determine any applicable tax limits is the one for the immediately preceding year and not the current year. See "– Property Tax Extension Limitation Law; Issuance of Alternate Bonds" below. For a listing of the Equalization Factors for the ten years ended December 31, 2009, see "– Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2000-2009."

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

An annual General Homestead Exemption provides that the EAV of certain property owned and used for residential purposes ("Residential Property") may be reduced by $6,000 for assessment years 2009 and forward (the "General Homestead Exemption"). The General Homestead Exemption is available to Residential Property in all counties other than Cook County.

The Alternative General Homestead Exemption (the "Alternative General Homestead Exemption") caps EAV increases for homeowners (who also reside on the property as their principal place of residence) at 7% a year, up to a certain maximum each year as defined by the statute. Any amount of increase that exceeds the maximum exemption as defined is added to the 7% increase and is part of that property's taxable EAV. Homes that do not increase by at least 7% a year are entitled, in the alternative, to the General Homestead Exemption as discussed above. Of note, the Alternative General Homestead Exemption is limited to the amount of the General Homestead Exemption for properties that receive the Senior Citizen Assessment Freeze Homestead Exemption (hereinafter defined).

The Base Year for purposes of calculation of the Alternative General Homestead Exemption is 2003 for properties located in the City, 2004 for properties located in the northern and northwestern portions of the County and 2005 for properties located in the western and southern portions of the County. The Base Homestead Value is the EAV of the homestead property minus the General Homestead Exemption for that year: $6,000 for the year 2009 and thereafter.

For properties in the City, the Alternative General Homestead Exemption cannot exceed $20,000 for assessment year 2009 (with taxes payable in 2010), $16,000 for assessment year 2010 (with taxes payable in 2011) and $12,000 for the 2011 tax year (with taxes payable in 2012). For properties in the northern and northwestern portions of the County, the Alternative General Homestead Exemption cannot exceed $20,000 for assessment year 2009 and 2010 (with taxes payable in 2010 and 2011, respectively), and $16,000 for assessment year 2011 (with taxes payable in 2012) and $12,000 for assessment year 2012 (with taxes payable in 2013). For properties in the western and southern portions of the County, the Alternative General Homestead Exemption cannot exceed $26,000 for assessment year 2009 (with taxes payable in 2010), $20,000 for assessment year 2010 and 2011 (with taxes payable in 2011 and 2012, respectively), $16,000 for assessment year 2012 (with taxes payable in 2013) and $12,000 for assessment year 2013 (with taxes payable in 2014).

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

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

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

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

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

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

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

In addition, the Disabled Veterans' Standard Homestead Exemption ("Disabled Veterans' Standard Homestead Exemption", not to be confused with the Disabled Veterans' Homestead Exemption indicated above) provides disabled veterans an annual homestead exemption starting with assessment year 2007 and thereafter. Specifically, for assessment years 2007 through 2009, (i) those veterans with a service-connected disability of 75% are granted an exemption of $5,000 and (ii) those veterans with a service-connected disability of less than 75%, but at least 50%, are granted an exemption of $2,500. Beginning with the assessment year 2010, those veterans with a service-connected disability of less than 69%, but at least 50%, are granted an exemption of $2,500. Additionally, beginning with the assessment year 2011, a disabled veteran receiving the Disabled Veterans' Standard Homestead Exemption may continue to do so if such veteran becomes a resident of a Nursing Home Care Act licensed facility or a facility granted by the U.S. Dept. of Veterans Affairs provided the residence is still occupied by such veteran's spouse, or the residence is vacant and still owned by such veteran. Furthermore, the veteran's surviving spouse is entitled to the benefit of the exemption, provided that the spouse has legal or beneficial title of the homestead, resides permanently on the homestead and does not remarry. Moreover, if the property is sold by the surviving spouse, then an exemption amount not to exceed the amount specified by the current property tax roll may be transferred to the spouse's new residence, provided that it is the spouse's primary residence and the spouse does not remarry. However, individuals claiming exemption as a disabled veteran or claiming an exemption under the Disabled Persons' Homestead Exemption cannot claim the aforementioned exemption.

Also, beginning with assessment year 2007, the Returning Veterans' Homestead Exemption ("Returning Veterans' Homestead Exemption") is available for property owned and occupied as the principal residence of a veteran in the assessment year the veteran returns from an armed conflict while on active duty in the United States armed forces (the "Returning Year"). This provision grants a homestead exemption of $5,000, which is applicable in all counties. In order to apply for this exemption, the individual must pay real estate taxes on the property, own the property or have either a legal or an equitable interest in the property, subject to some limitations. Those individuals eligible for this exemption may claim the exemption in addition to other homestead exemptions, unless otherwise noted. Further, beginning with assessment year 2010, the exemption period expands to two consecutive years – the Returning Year and the assessment year following the Returning Year. Finally, as of assessment year 2010, the exemption is available for property acquired and occupied on January 1 of year after the Returning Year.

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

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

After the Units file their annual tax levies, the County Clerk computes the annual tax rate for each Unit. The County Clerk computes the Unit's maximum allowable levy by multiplying the maximum tax rate for that Unit multiplied by the prior year's EAV for all property currently in the taxing district. The prior year's EAV includes the EAV of any new property, the current year value of any annexed property, and any recovered tax increment value, minus any disconnected property for the current year under the Limitation Law. See "– Property Tax Extension Limitation Law; Issuance of Alternate Bonds" below. The tax rate for a Unit is computed by dividing the lesser of the maximum allowable levy or the actual levy by the current year's EAV. If any tax rate thus calculated or any component of such a tax rate (such as a levy for a particular fund) exceeds any applicable statutory rate limit, the County Clerk disregards the excessive rate and applies the maximum rate permitted by law.

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

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first always due on March 1 and the second due on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill calculated at 55% of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the then current tax year levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Over the last 10 years, the second installment "penalty date" (that is, the date after which interest is due on unpaid amounts) has not been later than December 1 except the date for tax year 2009, which was December 13, 2010. It is possible that delays in the assessment process or changes to the assessment appeal process described above will cause delays in the preparation and mailing of second installment tax bills in future years. The delay in the second installment 2009 tax bill was a result of the decrease in the level of assessment for all properties, prompting a county-wide appeal by taxpayers.

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

At the end of each collection year, the County Collector presents the Warrant Books to the Circuit Court and applies for a judgment for all unpaid taxes. The court order resulting from the application for

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

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

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

Property Tax Extension Limitation Law; Issuance of Alternate Bonds

The Limitation Law, previously applicable only to non-home rule taxing districts located in DuPage, Kane, Lake, McHenry and Will Counties, was extended in 1995 (effective as of the 1994 assessment year) to non-home rule taxing districts in Cook County, including the Board. The effects of the Limitation Law are to limit or retard the growth in the amount of property taxes that can be extended for a non-home rule taxing body and to impose direct referendum requirements upon the issuance of certain types of general obligation bonds by such non-home rule taxing bodies.

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

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

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

Illinois Truth in Taxation Law

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

Bond Issue Notification Act

The Bond Issue Notification Act (the "Bond Issue Notification Act") requires a public hearing to be held by any governmental unit proposing to sell non-referendum general obligation bonds or limited bonds subject to backdoor referendum. The public hearing is intended to require the governing body approving the bond issue to explain the reasons for the proposed issuance and allow persons desiring to be heard an opportunity to present written or oral testimony. On October 7, 1998, the Board held a hearing pursuant to the Bond Issue Notification Act in connection with bonds to be issued pursuant to the 1998 Authorization, including the Bonds.

Property Tax Information

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

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Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2001-2010

(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				
2010	N/A	N/A	N/A	N/A	N/A	3.3000	$82,092,485	N/A	N/A
2009	18,311,981	1,812,850	10,720,244	592,365	31,437,440	3.3701	84,592,286	280,288,730	30.18
2008	19,339,574	1,602,769	12,359,537	693,240	33,995,120	2.9786	80,977,543	310,888,609	26.05
2007	18,937,256	1,768,927	12,239,086	678,196	33,623,465	2.8439	73,645,316	320,503,503	22.98
2006	18,521,873	2,006,898	12,157,199	688,818	33,374,788	2.7076	69,511,192	329,770,733	21.08
2005	13,420,538	1,842,613	10,502,698	462,099	26,227,948	2.7320	59,304,530	283,137,884	20.95
2004	12,998,216	1,883,047	10,401,428	465,464	25,748,155	2.5757	55,283,639	262,080,627	21.09
2003	12,677,199	2,233,572	10,303,731	487,680	25,702,182	2.4598	53,168,632	263,482,258	20.18
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	189,362,475	23.94
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51

(1) Source: Cook County Assessor's Office. Information for 2010 is not available as of the date of this Remarketing Circular.
(2) Source: Illinois Department of Revenue.
(3) Source: Cook County Clerk's Office. Calculations are net of exemptions and include assessment of pollution control facilities. Excludes DuPage County Valuation.
(4) Source: The Civic Federation. Excludes railroad property. Information for 2010 is not available as of the date of this Remarketing Circular.
(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 2003, 2006 and 2009.

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

Levy Year[(2)]	Extension	First Year Collections Amount	First Year Collections Percent	Cumulative Collections[(1)] Amount	Cumulative Collections[(1)] Percent
2010	$ 2,118,541	$ 1,972,086	93.1%	$ 1,972,086	93.1%
2009	2,001,252	1,861,211	93.0%	1,991,960	99.5%
2008	2,001,751	1,863,630	93.1%	1,966,150	98.2%
2007	1,901,887	1,809,396	95.1%	1,857,608	97.7%
2006	1,874,750	1,644,937	87.7%	1,810,279	96.6%
2005	1,794,063	1,728,522	96.3%	1,746,546	97.4%
2004	1,716,111	1,565,982	91.3%	1,682,534	98.0%
2003	1,670,337	1,500,238	89.8%	1,623,154	97.2%
2002	1,614,473	1,548,369	95.9%	1,578,057	97.7%
2001	1,571,962	1,519,630	96.7%	1,546,380	98.4%

(1) Tax receivables net of Estimated Allowance for Uncollectible taxes (the "Allowance").
(2) The 2010 tax extensions year reflects collections through December 7, 2011.

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Tax Rates by Board Fund:										
Educational	$2.712	$2.670	$2.258	$2.301	$2.142	$2.078	$2.377	$2.426	$2.204	$2.449
School District Medicare [(1)]	0.031	0.017	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.191	0.150	0.219	0.131	0.228	0.021	0.190	0.031	0.148	0.067
PBC Operation and Maintenance [(2)]	0.685	0.609	0.565	0.576	0.565	0.521	0.000	0.000	0.000	0.000
PBC Lease Rentals	0.125	0.116	0.100	0.096	0.091	0.077	0.016	0.155	0.014	0.065
Board Subtotal	$3.744	$3.562	$3.142	$3.104	$3.026	$2.697	$2.583	$2.472	$2.366	$2.581
Other Major Government Units:										
City of Chicago	$1.637	$1.591	$1.380	$1.302	$1.243	$1.062	$1.044	$1.147	$1.098	$1.132
Community College District	0.307	0.280	0.246	0.242	0.234	0.205	0.159	0.156	0.150	0.151
School Finance Authority	0.223	0.177	0.151	0.177	0.127	0.118	0.091	0.000	0.000	0.000
Chicago Park District	0.567	0.545	0.464	0.455	0.443	0.379	0.355	0.323	0.309	0.319
Water Reclamation District	0.401	0.371	0.361	0.347	0.315	0.284	0.263	0.252	0.261	0.274
Cook County	0.746	0.690	0.630	0.593	0.533	0.500	0.446	0.415	0.394	0.423
Cook County Forest Preserve	0.067	0.061	0.059	0.060	0.060	0.057	0.053	0.051	0.049	0.051
Other Unit Subtotal	$3.948	$3.715	$3.291	$3.176	$2.955	$2.605	$2.411	$2.344	$2.260	$2.350
TOTAL	$7.692	$7.277	$6.433	$6.280	$5.981	$5.302	$4.994	$4.816	$4.630	$4.931

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

(1) Beginning fiscal year 2004, the tax levy for Medicare has been consolidated with the Education tax rate.
(2) Beginning fiscal year 2007, the tax levy for PBC Operations & Maintenance has been consolidated with the Education tax rate.

TAX MATTERS

Initial Co-Bond Counsel Opinions

On the date of issuance of the Series 2000B Bonds, Gardner, Carton and Douglas, Chicago, Illinois, and McGaugh & Associates, Chicago, Illinois, co-bond counsel (the "Initial Co-Bond Counsel"), rendered their approving legal opinions in the forms set forth in Appendix D hereto. Each such approving opinion spoke only as of its date. Initial Co-Bond Counsel have not been engaged to (i) advise on the correctness of such opinions as of any date other than the date thereof, (ii) revise or supplement such opinions to reflect any facts or circumstances that may have come to their attention since the date thereof or any changes in law that may have occurred since the date thereof, or (iii) render any opinion on the current tax status of the Bonds. The inclusion of such opinions in this Remarketing Circular shall not constitute any reissuance or republication of such opinions. Initial Co-Bond Counsel are not rendering any opinion on the current tax status of the Bonds

The Official Statement dated September 6, 2007 contained the following description of certain tax matters relating to the Bonds:

The Internal Revenue Code of 1986, as amended, (the "Code") contains a number of requirements and restrictions that apply to the Bonds from and after the date of issuance thereof, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of Bond proceeds and the facilities financed or refinanced therewith, and certain other matters. The Board has covenanted to comply with all requirements of the Code that must be satisfied in order for interest on the Bonds to be excludable from gross income. Failure to comply with certain of such requirements could cause interest on the Bonds to become includable in gross income retroactive to the date of issuance of the Bonds.

Subject to the condition that the Board comply with the above-referenced covenants, under present law, in the separate opinions of Co-Bond Counsel, the Bonds are not "private activity bonds" under the Code, and interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be included in "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax for such corporations.

In rendering their opinions, Co-Bond Counsel will rely upon certifications of the Board and certain other parties with respect to certain material facts solely within their knowledge relating to the facilities to be financed or refinanced with the Bonds, the application of the proceeds of the Bonds and certain other matters pertinent to the tax exemption of the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, (i) corporations subject to the branch profits tax, (ii) financial institutions, (iii) certain insurance companies, (iv) certain Subchapter S corporations, (v) individual recipients of Social Security or Railroad Retirement benefits, and (vi) taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity, the purchaser may be treated as having purchased a Bond with market discount subject to the

market discount rules of the Code (unless a statutory *de minimus* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

Interest on the Bonds is not exempt from income taxes currently imposed by the State of Illinois.

Co-Bond Counsel have not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. No assurance can be given that future legislation, or amendments to the Code, if enacted into law, will not contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

This information has not been updated, revised or confirmed since the date of the Official Statement.

Opinion of 2011 Bond Counsel

In the opinion of Quarles & Brady LLP, Chicago, Illinois, bond counsel (the "2011 Bond Counsel"), the replacement of the bond insurance policy and standby bond purchase agreement with the 2011 Credit Facility and the execution and delivery of the Amended Indenture, in and of themselves, will not cause the interest on the Bonds to become includable in the gross income of the owners thereof for federal income tax purposes.

The opinion or 2011 Bond Counsel is limited to the matters expressly described above. 2011 Bond Counsel has assumed the correctness of the opinions of the Initial Co-Bond Counsel and, except as stated above, 2011 Bond Counsel has not been requested, nor have they undertaken, to review any matters relating to the matters described or the validity of the Bonds or the tax-exempt status of the interest on the Bonds. The opinions of 2011 Bond Counsel are for the sole benefit of the addressees thereof and no other person may rely upon such opinions without the express written consent of 2011 Bond Counsel.

2011 Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to 2011 Bond Counsel as of the date of such opinion. 2011 Bond Counsel assumes no duty to update or supplement their opinion to reflect facts or circumstances that may thereafter come to their attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, 2011 Bond Counsel's opinions are not a guarantee of a particular result, and are not binding upon the Internal Revenue Service or the courts; rather such opinions represent 2011 Bond Counsel's professional judgment based upon their review of existing law and in reliance on the representations and covenants that 2011 Bond Counsel deems relevant to such opinions.

RATINGS

On the date of the reoffering, the Bonds are expected to receive the ratings of "AA-/A-1+" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), "AA-/F1+" by Fitch Ratings ("Fitch") and "Aa1/VMIG 1" by Moody's Investor Service ("Moody's"). The ratings by Standard & Poor's and Fitch are expected to be based solely on the strength of the Series 2011 Credit Facility. The long-term rating by Moody's is expected to be based upon both the Series 2011 Credit

Facility and the underlying rating of the Board. The short-term rating by Moody's is expected to be based solely upon the strength of the Series 2011 Credit Facility.

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

INDEPENDENT AUDITORS

The financial statements of the Board of Education of the City of Chicago as of and for the year ended June 30, 2011, included in APPENDIX A to this Remarketing Circular have been audited by McGladrey & Pullen, LLP, independent auditors, as stated in their report appearing herein.

FINANCIAL ADVISORS

The Board has engaged Acacia Financial Group, Inc. and Columbia Capital Management, LLC (the "Financial Advisors") in connection with the reoffering of the Bonds. The Financial Advisors have provided advice on the plan of financing and structure of the Bonds and have reviewed certain legal documents, including this Remarketing Circular, with respect to financial matters. Unless indicated to the contrary, the Financial Advisors have not independently verified the factual information contained in this Remarketing Circular, but have relied on the information supplied by the Board and other sources.

CERTAIN LEGAL MATTERS

The reoffering of the Bonds is subject to certain conditions including the delivery of the opinion of Quarles and Brady LLP, that the Transaction described under the caption "INTRODUCTION – Credit Facility Substitution" herein will not, in and of itself, impair the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation to the extent such exclusion is otherwise available to interest on the Bonds. Certain legal matters will be passed on for the Board by its General Counsel, Patrick J. Rocks, and by its special counsel Katten Muchin Rosenman LLP, Chicago, Illinois, for the Remarketing Agent by its counsel Burke Burns & Pinelli, Ltd., Chicago, Illinois, and for the 2011 Credit Provider by its counsel, Chapman and Cutler LLP, 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 Remarketing Circular. 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.”

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

Specific Matters

Advance Computer Technical Group, Inc. v. Board of Education of the City, et al. is a lawsuit filed by a computer-support-services vendor (“ACTG”) against the Board and another vendor, Unisys Corporation. Unisys was retained by the Board to oversee the Board’s computer-support-services program. The Board exercised a termination-for-convenience provision in its contract with ACTG effective June 30, 2006. ACTG claims that the Board’s termination of the contract constituted a breach, that the Board also breached the contract by not paying ACTG at an extra-contractual rate, and that Unisys tortiously interfered with the contract. ACTG seeks approximately $12 million in alleged lost profits and $30 million in alleged “lost business opportunities” based on the Board’s alleged wrongful termination of the contract, and approximately $6 million based on the alleged underpayments. Based on the Board’s successive motions, the court has dismissed or precluded the filing of numerous ACTG claims. In its fourth amended complaint, ACTG’s claims are based on approximately $172,000 in allegedly unpaid invoices, however ACTG’s damages requests still include previously dismissed claims of lost profits and business opportunity calculations ($524,972 and $30,000,000 respectively). Board records provided to ACTG establish that invoices attached to the fourth amended complaint have been paid and, when all paid invoices are removed, the invoice-based claims total about $15,000. ACTG’s claims against Unisys have been dismissed.

Chicago Teachers Union v. Board of Education etc. et al. (US Dist. Court, ND ILL.) Case No. 10-CV-4852; Chicago Teachers Union v. Chicago Board of Education (IELRB), Cases No. 2011-CA-0033-C; 2011-CA-0036-C. Price, et al., v. Board of Education (U.S. Dist. Court, N.D. Ill.), Case No. 11-CV-4463; Chicago Teachers Union v. Board of Education etc., Grievance Numbers 10-07-129 and 10-07-163. The CTU has recently withdrawn one Illinois Educational Labor Relations Board (“IELRB”) case and filed two new cases. The substantive claims remain the same. CTU challenges the economic layoffs that the Board implemented during the summer of 2010. In federal district court, CTU claims violations of federal due process and the contracts clause of the U.S. Constitution as well as state law violations. Before the IELRB, CTU claims that the Board failed to bargain in good faith over the layoff decision and its impact on the bargaining unit. The Board laid off approximately 1289 teachers over the summer in response to financial exigencies. The Board implemented another 467 teacher layoffs for reasons of financial exigency in July 2011 and the CTU includes them in the class of employees covered by this litigation. None of the teachers laid off for financial exigencies went to the reassigned teachers’ pool. They were honorably terminated without individual hearings, in order of teacher rating, tenure and certification. They seek the same relief for the teachers in all three cases, namely the undoing of the layoffs and back wages for the teachers. In the federal case, CTU also seeks attorneys’ fees. CTU claims damages of an estimated $50 million plus attorneys’ fees. The value of the attorney fee claim is unknown. The Board is unable to form an opinion regarding the ultimate outcome of this case at this time. On October 4, 2010, a federal district court judge granted CTU’s motion for a finding that the layoffs were improper and prohibited the Board from conducting future layoffs in the same manner. The judge further directed the Board to “rescind” the discharges of tenured teachers and to negotiate recall rules with CTU for future layoffs. The Board appealed the ruling and the Seventh Circuit affirmed the district court’s injunction, finding that tenured teachers did have a 14th Amendment due process right to demonstrate that they were qualified for vacancies and remanding the matter to the district court to amend the portion of the order requiring the Board to negotiate with CTU on the recall rule. Following the

Board's petition for a review by the full panel, the Seventh Circuit vacated its order and asked the Supreme Court of Illinois to answer certified questions of Illinois law. The Supreme Court agreed to do so. The parties fully briefed the questions and the Supreme Court heard oral arguments on those questions on November 22, 2011.

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

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

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

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

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

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

Education contribution for the coming fiscal year…" On February 19, 2009, the Pension Fund sent a letter to the Board, stating in part:

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

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

The Illinois Pension Code does not permit the Pension Fund to amend the amount it has certified to be due from the Board as "required employer contribution" after February 28 of the next fiscal year. Because the amounts the Pension Fund certifies can never be based on actual receipts during the fiscal year to which a certification applies, the Pension Fund's theory of the case is not valid. Ultimately the required employer contribution is a rolling estimate subject to adjustment annually based on actual State and Board contributions and Fund expenses in past years as well as the value of Fund assets and projections of future expenses. However, there is a legal question of first impression as to what amount the Pension Fund's original letter "certified." The trial court has denied the Pension Fund's summary judgment motion. The court also granted the Board's motion for summary judgment on August 19, 2011. CTPF has filed an appeal of these rulings. In the Board's opinion, the appellate court will more likely than not affirm the trial court's ruling.

<u>Chicago Teachers Union, Grievance Nos. 10-07-129 and 10-07-163.</u> The Chicago Teachers Union filed a series of grievances in 2010 contesting the layoff of teachers for financial and other reasons, whom the Board deemed ineligible for the benefit of placement in the Reassigned Teacher Pool and Cadre Substitute Pool. A total of 1289 teachers were laid off and not afforded these benefits. Approximately 70% of those (850) were ultimately rehired but suffered varying periods of unemployment. The remaining 30% were not rehired by the Board (439). Adverse rulings on this issue could result in liability in excess of $50 million before set offs.

The Board and the Union agreed to consolidate the matters in three arbitrations, reflecting the three waves of economic layoffs that were implemented: first in City-wide positions, then in schools on the Track E calendar and then at schools on the regular calendar. The first arbitration concerning the City-wide employees went to trial in June 2011 and the Arbitrator found that the Board did not violate the collective bargaining agreement and that employees who were laid off for economic reasons are not entitled to the benefits of assignment to the Reassigned Teacher Pool or the Cadre Substitute Pool.

The Board has asked the Union to accept the conclusion of the arbitrator for the other two cases. The Union has refused and insists on trying the two other cases. Estimated exposure is approximately

$40 million. The Board will continue to vigorously defend these grievances and will use the decision in the first arbitration as binding precedent.

Recently Filed Litigation.

Chicago Teachers' Pension Fund v. Board, 11 CH 30863. The Board of Trustees of the Pension Fund filed suit against the Board and President Vitale on August 31, 2011, seeking a judgment declaring that, under sections 17–127.2 and 17–129(b) of the Illinois Pension Code, the Board was obligated to contribute the sum of $198,140,000 to the Pension Fund for fiscal year 2011, and violated those provisions by only contributing $165,617,600. Section 17–129(b)(vii) of the Illinois Pension Code, however, states that any contribution by the State to or for the benefit of the Pension Fund, including, without limitation, as referred to under section 17–127, shall be a credit against any contribution required to be made by the Board of Education. The Board contends that the Illinois Pension Code entitled it to a credit for a State of Illinois payment to the Pension Fund in the amount of approximately $32,500,000 and that it does not owe additional payments to the Pension Fund for fiscal year 2011. At this juncture, the Board is unable to form an opinion on the outcome of this case. The Board is vigorously defending this litigation.

CONTINUING DISCLOSURE UNDERTAKING

The Board will enter into a Continuing Disclosure Undertaking (the "Undertaking") for the Bonds for the benefit of the Beneficial Owners of the Bonds to send certain information annually and to provide notice of certain events to the Municipal Securities Rulemaking Board (the "MSRB") pursuant to the requirements of Section (b)(5) of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended. The MSRB has designated its Electronic Municipal Market Access system ("EMMA") as the system to be used for continuing disclosure to investors.

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

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

Annual Financial Information Disclosure

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

"*Annual Financial Information*" means historical information generally consistent with information of the type set forth in this Remarketing Circular under the captions "BOARD OF EDUCATION OF THE CITY OF CHICAGO — School System," "– Overview of Board's Fiscal Year 2012 Budget and Recent Financial Information Concerning the Board," "– General Operating Fund Balances," "– Outstanding Debt Obligations," "– Legal Debt Margin Information of the Board," "– Board's Interest Rate Swap Agreements," "– Other Post-Employment Benefits and Other Board Liabilities" and "– Teacher Pension Obligations." Except however, the information under the caption "—

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

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

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

Reportable Events Disclosure

The Board covenants that it will disseminate in a timely manner, not in excess of ten business days after the occurrence of the "Reportable Event" (as described below), to the MSRB in an electronic format as prescribed by the MSRB, accompanied by identifying information as prescribed by the MSRB, the disclosure of the occurrence of a Reportable Event. Certain Reportable Events are required to be disclosed only to the extent that such Reportable Event is material, as materiality is interpreted under the Exchange Act. The "Reportable Events," certain of which may not be applicable to the Bonds, are:

(a) principal and interest payment delinquencies;

(b) non-payment related defaults, if material;

(c) unscheduled draws on debt service reserves reflecting financial difficulties;

(d) unscheduled draws on credit enhancements reflecting financial difficulties;

(e) substitution of credit or liquidity providers, or their failure to perform;

(f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, notices of proposed issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(g) modifications to rights of security holders, if material;

(h) Bond calls, if material, and tender offers;

(i) defeasances;

(j) release, substitution or sale of property securing repayment of the securities, if material;

(k) rating changes;

(l) bankruptcy, insolvency, receivership or similar event of the Board (such an Event will be considered to have occurred in the following instances: the appointment of a receiver,

fiscal agent or similar officer for the Board in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if the jurisdiction of the Board has been assumed by leaving the Board Council and the Board's officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board);

(m) the consummation of a merger, consolidation, or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Consequences of Failure to Provide Information

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

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

Amendment; Waiver

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

(a) (i) The amendment or the waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Board, or type of business conducted;

(ii) The Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Beneficial Owners of the Bonds, as determined by parties unaffiliated with the Board (such as the Trustee or Co-Bond Counsel), or by the approving vote of the owners of the Bonds pursuant to the terms of the Indenture at the time of the amendment; or

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

Termination of Undertaking

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

Dissemination Agent

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

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AUTHORIZATION AND MISCELLANEOUS

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

By: /s/ David G. Watkins
David G. Watkins
Chief Financial Officer

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APPENDIX A

Audited Financial Statements for Fiscal Year 2011

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McGladrey & Pullen, LLP
Certified Public Accountants

McGladrey

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chicago Public Schools (the Board of Education of the City of Chicago, the “CPS”, a body politic and corporate of the State of Illinois), as of and for the year ended June 30, 2011, which collectively comprise the CPS’ basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CPS’ management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the CPS’ internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Chicago Public Schools as of June 30, 2011, and the respective changes in financial position and the respective budgetary comparison for the General Operating Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, as of July 1, 2010, the District adopted the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

Management’s discussion and analysis on pages A-3 through A-20 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the CPS. The 2011 information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2011 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the District's basic financial statements for the year ended June 30, 2010, which are not presented with the accompanying financial statements. In our report dated December 10, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the comparative schedules presenting 2010 information are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole.

McGladrey & Pullen, LLP

Chicago, Illinois
December 9, 2011

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CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis (Unaudited)
June 30, 2011

Our discussion and analysis of the financial performance of Chicago Public Schools (CPS) provides an overview of financial activities for the fiscal year ended June 30, 2011. Because the intent of this management discussion and analysis is to look at financial performance as a whole, readers should also review the transmittal letter, financial statements, and notes to the basic financial statements to further enhance their understanding of CPS' financial performance.

Financial Highlights

In the statement of net assets, CPS' ended the fiscal year with a deficit of $1.202 billion, an increase in the deficit of $284 million or 30.9% from the prior year. The increase is mainly attributed to larger expenses in the categories of pension, other postemployment benefits and benefit day liabilities.

CPS ended fiscal year 2011 with a combined fund balance for its governmental funds of $1.426 billion, an increase of $239 million or 20.1%, from fiscal year 2010. Total operating revenues for fiscal year 2011 were $5.116 billion, which were $340 million or 7.1% higher than the prior year of $4.776 billion. Total operating expenditures for fiscal year 2011 were $4.910 billion, which were $14 million or 0.3% higher than the prior year of $4.896 billion.

With respect to the general operating fund, the fund balance increased by $316 million, whereas the fund balance for the capital projects fund decreased by $80 million and the fund balance for the debt service funds increased by $3 million.

The $316 million increase in fund balance in the general operating fund is primarily attributed to the following:

- CPS issued $257 million in Unlimited Tax General Obligation Refunding bonds to restructure $252 million in debt. The debt restructuring provided budget and cash flow relief by extending maturities and resulted in a transfer into the general operating fund of $110 million.

- CPS received one time revenues from various sources such as $123 million in surplus Tax Increment Financing (TIF) proceeds from the City of Chicago.

- The amount owed to CPS from the State decreased by $60 million, from $236 million in fiscal year 2010 to $176 million in fiscal year 2011.

The general operating fund cash balance increased to $1.079 billion in fiscal year 2011 from $792 million in fiscal year 2010, an increase of $287 million.

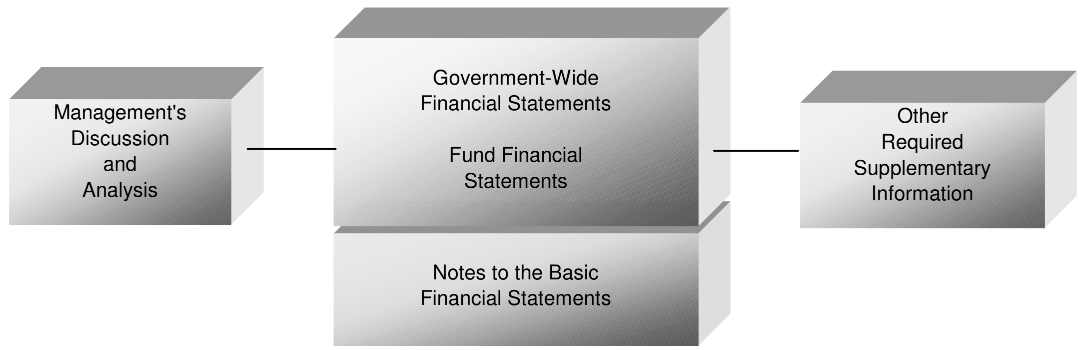
During fiscal year 2011 CPS issued $382 million in Unlimited Tax General Obligation Bonds to fund the capital improvement program. Total expenditures in the capital projects fund were $563 million in fiscal year 2011.

In October 2011, Moody's Investors Service downgraded its rating on CPS' outstanding general obligation bonds to Aa3 from Aa2.

During fiscal year 2011, CPS implemented GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Accordingly, the FY2011 ending fund balance classified as follows: $2 million represents nonspendable fund balance, $672 million is restricted fund balance, $747 million is assigned fund balance and $5 million represents unassigned fund balance, totaling $1.426 billion of fund balance for all funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



Government-wide financial statements including the Statement of Net Assets and the Statement of Activities provide both short-term and long-term information about CPS' financial status. The fund financial statements provide a greater level of detail of how services are financed in the short-term as well as the remaining available resources for future spending. The accompanying notes provide essential information that is not disclosed on the face of the financial statements, and as such, are an integral part of the basic financial statements.

Government-Wide Financial Statements

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

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

The ***Statement of Activities*** presents information showing the details of change in net assets during the fiscal year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

Condensed Statement of Net Assets
(Millions of dollars)

	Governmental Activities			
	2011	2010	Difference	% Change
Current assets	$ 4,249	$ 3,809	$ 440	11.6%
Capital Assets, net	5,787	5,475	312	5.7%
Non-current assets	133	165	(32)	-19.4%
Total assets	$ 10,169	$ 9,449	$ 720	7.6%
Current liabilities	$ 1,267	$ 1,179	$ 88	7.5%
Long-term liabilities	10,104	9,188	916	10.0%
Total liabilities	$ 11,371	$ 10,367	$ 1,004	9.7%
Net Assets:				
Invested in capital assets				
net of related debt	$ 370	$ 440	$ (70)	-15.9%
Restricted for:				
Debt service	469	443	26	5.9%
Specific purposes	161	115	46	40.0%
Unrestricted	(2,202)	(1,916)	(286)	14.9%
Total net assets	$ (1,202)	$ (918)	$ (284)	30.9%

Current assets of $4.249 billion increased $440 million or 11.6% primarily due to higher cash balances and larger receivable balances.

Capital assets, net of depreciation increased $312 million or 5.7% due to the continued progress of the Capital Improvement Program.

Non-current assets of $133 million decreased $32 million or 19.4% due to the change in fair value of the swaps.

Current liabilities of $1.267 billion increased $88 million or 7.5% primarily due to increases in accounts payable and accrued payroll and benefits of $117 million and $29 million respectively. The increases are partially offset by a decrease in the current portion of long–term debt and capitalized lease obligations of $55 million.

Long-term liabilities

Long-term debt increased $390 million or 7.0%, due to the issuance of new debt to fund the capital improvement program. The total long-term portion of debt outstanding and capitalized leases was $5.601 billion in fiscal year 2010 and $5.991 billion in fiscal year 2011.

Accrued pension increased to $2.262 billion in fiscal year 2011 from $1.969 billion in fiscal year 2010, an increase of $293 million or 14.9%. The year-end balance reflects the increase in the net pension obligation related to the Public School Teachers' Pension and Retirement Fund of Chicago.

Other postemployment benefits (OPEB) liability increased to $1.130 billion in fiscal year 2011 from $949 million in fiscal year 2010, an increase of $181 million, or 19.1%. The year-end balance reflects the increase in net OPEB related to healthcare costs associated with the Public School Teachers' Pension and Retirement Fund of Chicago.

Other benefits and claims excluding the current portion increased to $550 million in fiscal year 2011 from $460 million in fiscal year 2010, an increase of $90 million or 19.6%. The year-end balance reflects increases in accrued sick pay of $123 million, offset by decreases in vacation pay, workers' compensation and general and auto liability of $10 million, $21 million and $2 million, respectively.

Other long-term liabilities decreased to $169 million in fiscal year 2011 from $207 million in fiscal year 2010, a decrease of $38 million. The year-end balance reflects decreases in the derivative instrument liability and swaption borrowing payable of $36 million and $2 million, respectively.

Net assets (deficit) increased $284 million to a $1.202 billion deficit. Of this amount, $370 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of $630 million are reported separately to present legal constraints from debt covenants and enabling legislation. The $2.202 billion of unrestricted deficit represents the shortfall CPS would experience if it had to liquidate all of its non-capital liabilities as of June 30, 2011.

Certain items of the 2010 net assets have been reclassified to conform to the 2011 presentation. These reclassifications had no impact on the change in net assets as previously reported.

The following table presents the changes in net assets from fiscal year 2010 to 2011:

Changes in Net Assets
(In Millions)

	Governmental Activities			
	2011	2010	Difference	% Change
Revenues:				
Program revenues:				
Charges for services	$ 7	$ 11	$ (4)	-36.4%
Operating grants and contributions	1,368	1,377	(9)	-0.7%
Capital grants and contributions	185	99	86	86.9%
Total program revenues	$ 1,560	$ 1,487	$ 73	4.9%
General revenues:				
Property taxes	$ 2,053	$ 1,896	$ 157	8.3%
Replacement taxes (PPRT)	198	152	46	30.3%
Non-program state aid	1,793	1,533	260	17.0%
Interest and investment earnings	17	13	4	30.8%
Other	139	173	(34)	-19.7%
Total general revenues	$ 4,200	$ 3,767	$ 433	11.5%
Total revenues	$ 5,760	$ 5,254	$ 506	9.6%
Expenses:				
Instruction	$ 3,713	$ 3,507	$ 206	5.9%
Support services:				
Pupil support services	545	438	107	24.4%
Administrative support services	187	202	(15)	-7.4%
Facilities support services	499	481	18	3.7%
Instructional support services	542	524	18	3.4%
Food services	216	207	9	4.3%
Community services	47	51	(4)	-7.8%
Interest expense	286	258	28	10.9%
Other	9	13	(4)	-30.8%
Total expenses	$ 6,044	$ 5,681	$ 363	6.4%
Change in net assets	$ (284)	$ (427)	$ 143	-33.5%
Beginning net assets (deficit)	(918)	(491)	(427)	87.0%
Ending net assets (deficit)	$ (1,202)	$ (918)	$ (284)	30.9%

Net assets (deficit) at June 30, 2011 reflect an increase of $284 million from the prior year or 30.9%. Total revenues increased 9.6% or $506 million in FY2011. The increase in total revenues is primarily due to the following reasons: 1) State aid was higher than last year by $260 million mainly due to the State not replacing education funds with ARRA funds in FY2011 as it did in FY2010. 2) Property taxes were higher by $157 million due to an increase in the tax levy. 3) Capital grants and contributions increased by $86 million due to higher revenues from the Modern Schools Across Chicago Program and the Capital Development Board (CDB) funds and 4) PPRT revenues increased by $46 million because of three one-time events that occurred in FY2011. Please refer to the general operating fund revenue variance explanation for details. In general, the increase in expenses occurred primarily due to higher pension, other postemployment benefits and benefit day costs which are spread among the instruction and support service categories. The pupil support services increased by $107 million, due to higher costs for security services provided by the Chicago Police Department to CPS high schools and consulting services directly related to the Culture of Calm program.

Capital Assets

At June 30, 2011, CPS had $5.787 billion invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This amount represents a net increase of $312 million or 5.7% over the prior fiscal year.

(In Millions)	2011	2010	Difference	% Change
Land	$ 314	$ 298	$ 16	5.4%
Buildings	7,815	7,111	704	9.9%
Construction in progress	373	648	(275)	-42.4%
Equipment	162	157	5	3.2%
Internally developed software	5	3	2	66.7%
Total capital assets	$ 8,669	$ 8,217	$ 452	5.5%
Less: accumulated depreciation	(2,882)	(2,742)	(140)	5.1%
Total capital assets, net	$ 5,787	$ 5,475	$ 312	5.7%

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

Debt and Capitalized Lease Obligations

In October 2010, CPS issued three series of bonds, which are differentiated below by repayment source and use of proceeds. First, CPS issued $257 million in Unlimited Tax General Obligation Qualified School Bonds (Series 2010C). 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 $255 million in the Capital Improvement Fund. Like most other CPS bonds, the 2010C debt service will be paid from General State Aid revenues.

Second, CPS issued $125 million in Unlimited Tax General Obligation Taxable Build America Bonds (Series 2010D). The proceeds from these bonds will fund 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 $124 million in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues and Federal subsidy payments.

Finally, CPS issued $257 million in Unlimited Tax General Obligation Refunding Bonds (Series 2010FG) at a premium of $15 million. The proceeds from these bonds were used to refund the Series 1996, Series 1997, Series 2000A, Series 2000BCD, Series 2001A, Series 2001C, Series 2003A, Series 2004A, Series 2006B, Series 2007D, Series 2008B, Series 2009C, 2009D and Series 2009F bonds. As a result of the issuance, $269 million was deposited in a trust for the refunding of the bonds. The debt service on this issuance will be paid from General State Aid revenues.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $18 million. This difference reported in the accompanying financial statements as a deduction from bonds payable is being charged to operations over the life of the refunding or refunded bonds, whichever is shorter. The refunding bonds were issued primarily to provide budget relief to CPS' General Operating Fund by deferring required principal payments. However, a portion of the refunding was for economic savings. Accordingly, the refunding resulted in an overall economic gain of $1 million.

As of June 30, 2011, CPS had $6.099 billion in total debt, including accreted interest and capitalized lease obligations outstanding versus $5.764 billion last year, an increase of 5.8%. For more detailed information, please refer to Notes 8 through 10 to the basic financial statements.

Pension Funding

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

certified teachers and administrators employed by CPS or Charter Schools are members of the Teachers' Pension Fund. Educational support personnel who do not belong to the Teachers' Pension Fund participate in the Municipal Fund.

State statutes determine CPS' employer-required contribution to the Teachers' Pension Fund. As of June 30, 2011, the funded ratio of the Teachers' Pension Fund was 67.0%. CPS has recorded an estimated liability of $2.262 billion in the accompanying financial statements, as determined under generally accepted accounting principles. Under Public Act 96-0889, CPS was required to make a $187 million employer contribution to the Teachers' Pension Fund in FY2011.

As required under State statute, the City of Chicago is required to contribute all employer pension costs on behalf of CPS educational support personnel. The statutorily established rate for employer contribution to the Municipal Fund is 10.625% of actual salaries paid two years ago. Covered employees are required by State statute to contribute 8.5% of their salary. In fiscal year 2011, as in previous fiscal years, CPS paid a portion, 7.0%, or approximately $39 million of the required employees' contribution for most employees. Governmental Accounting Standards Board Statement No. 24 requires that on-behalf payments made by other governments should be included as revenues and expenditures as long as they are for employee benefits. CPS has been reporting on-behalf pension costs and revenues since FY1998. For detailed information, please refer to Note 12 to the basic financial statements.

Short-term pension funding relief

In April 2010, the Governor signed into law a bill passed by the General Assembly that provides short-term pension funding relief for CPS. Under this legislation (Public Act 96-0889), CPS will make pension contributions to the Teachers' Pension Fund in the amount of the "employer's normal cost" in FY2011 through FY2013 instead of required pension contributions to bring the Teachers' Pension Fund's funded ratio to 90.0% by FY2045. This resulted in a significant reduction of required pension contributions. The required pension contribution for fiscal years 2012 and 2013 are $192 million and $196 million, respectively. Beginning in FY2014, CPS will be required to make contributions to the Teachers' Pension Fund to bring the funded ratio to 90.0% by FY2059; the required contribution for fiscal year 2014 is estimated at $534 million or a $338 million increase over the FY2013 payment.

Overview of Fund Financial Statements

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

Governmental Funds

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

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

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

CPS' fund financial statements provide detailed information about the most significant funds – not CPS as a whole. CPS' governmental funds use the modified accrual basis of accounting. All of CPS' services are reported in governmental funds, showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using modified accrual accounting, which measures cash and all other financial assets that can readily

be converted to cash. The governmental fund statements provide a detailed short-term view of CPS' operations and the services it provides.

CPS maintains three governmental funds: General Operating, Capital Projects, and Debt Service. The following schedules present a summary of the general operating fund, capital projects fund and debt service fund revenues, and other financing sources by type and expenditures by program for the period ended June 30, 2011, as compared with June 30, 2010. They also depict the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

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

Revenues:	2011 Amount	2010 Amount	2011 Percent of Total	Increase (Decrease) from 2010	Percent Increase (Decrease) from 2010
Property taxes……………………	$ 1,937	$ 2,047	32.0%	$ (110)	-5.4%
Replacement taxes (PPRT)…….	198	153	3.3%	45	29.4%
State aid…………………………	1,950	1,552	32.3%	398	25.6%
Federal aid………………………	1,145	1,180	18.9%	(35)	-3.0%
Investment earnings……………	13	12	0.2%	1	8.3%
Other………………………………	417	360	6.9%	57	15.8%
Subtotal…………………………	$ 5,660	$ 5,304	93.6%	$ 356	6.7%
Other financing sources…………	384	801	6.4%	(417)	-52.1%
Total………………………………	$ 6,044	$ 6,105	100.0%	$ (61)	-1.0%
Expenditures:					
Current: …………………………………					
Instruction ……………………	$ 2,956	$ 2,899	50.9%	$ 57	2.0%
Pupil support services…………	509	416	8.8%	93	22.4%
General support services…….	1,023	1,011	17.6%	12	1.2%
Food services…………………	201	197	3.5%	4	2.0%
Community services………….	46	50	0.8%	(4)	-8.0%
Teachers' pension…………….	149	294	2.6%	(145)	-49.3%
Other……………………………	9	12	0.1%	(3)	-25.0%
Capital outlay……………………	580	706	10.0%	(126)	-17.8%
Debt service………………………	332	387	5.7%	(55)	-14.2%
Total………………………………	$ 5,805	$ 5,972	100.0%	$ (167)	-2.8%
Change in fund balance…………	$ 239	$ 133			

General Operating Fund

The general operating fund supports the day-to-day operation of educational and related activities. Reflecting the Board's efforts to control costs, the general operating fund ended FY2011 with revenues and other financing sources exceeding expenditures by $316 million. As a result, the fund balance in the general operating fund that can be used for future operations increased from $194 million at the end of FY2010 to $476 million as of June 30, 2011. This was achieved by limiting operating spending, lowering debt costs by debt restructuring, and directing all one-time revenues to the fund balance. Although this balance suggests a large improvement over the previous fiscal year, in which expenditures exceeded revenues and transfers by $102 million, the difference is largely the result of one-time revenue infusions which is not likely to reoccur.

Revenues:

Revenues and Other Financing Sources
(Millions of Dollars)

	2011 Amount	2010 Amount	2011 Percent of Total	Increase (Decrease) from 2010	Percent Increase (Decrease) from 2010
Property taxes………………………...	$ 1,904	$ 2,036	36.4%	$ (132)	-6.5%
Replacement taxes (PPRT)………..	172	97	3.3%	75	77.3%
State aid………………………………	1,695	1,368	32.4%	327	23.9%
Federal aid……………………………	1,122	1,160	21.5%	(38)	-3.3%
Investment earnings…………………	2	3	0.1%	(1)	-33.3%
Other Local……………………………	221	112	4.2%	109	97.3%
Subtotal………………………………	$ 5,116	$ 4,776	97.9%	$ 340	7.1%
Other financing sources……………	110	18	2.1%	92	511.1%
Total…………………………………	$ 5,226	$ 4,794	100.0%	$ 432	9.0%

Property tax revenues decreased by $132 million from the prior-year level as a result of no increase in property tax extensions in 2010 combined with one-time property tax revenues in FY2010 that were not present in FY2011. P.A.96-0490 changed the amount of the first installment tax bills from 50.0% to 55.0% of prior-year total taxes, effective in 2010, and it generated a one-time acceleration of revenues by $96 million in FY2010, something that did not occur in FY2011. In addition, property tax revenue declined by $36 million due to a lower levy amount extended in the current year compared to the prior year levy.

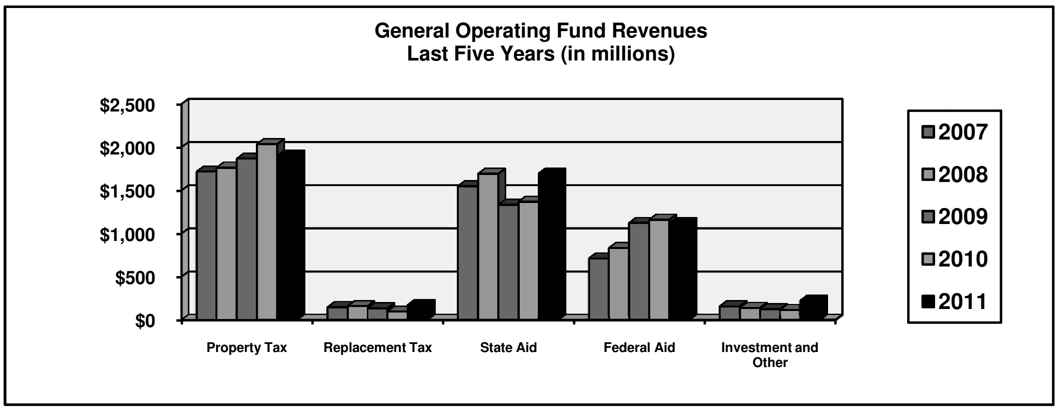
Personal property replacement taxes (PPRT) derives its revenues primarily from an additional State income tax on corporations and partnerships. There were three one-time events in FY2011 that increased PPRT revenues by $75 million over FY2010 level. First, the State offered a tax-amnesty program in fall 2010, resulting in $146 million of statewide collection from PPRT, of which CPS received $20 million. Second, the state distributed $197 million of refund funds that it had not used to pay for corporate refunds in the previous year, generating $27 million of one-time revenues to CPS. Third, CPS restructured some of bonds, which reduced PPRT payments to the debt service funds by $28 million from the budgeted level in FY2011.

State revenues - Several factors contributed to the increase in total state revenues in FY2011 over FY2010; however, instead of representing real growth in state revenues for CPS, most of the apparent growth was merely the result of fund substitution by the State. The increase of $327 million in state revenues is the direct result of the ISBE swapping state education funding with State Fiscal Stabilization Funds (SFSF) from the American Recovery and Reinvestment Act (ARRA) in FY2010. CPS received $279 million of SFSF funds instead of state revenues of $167 million of General State Aid and $112 million from the Early Childhood block grant in FY2010. For FY2011, the ISBE used state funds to pay for these two programs. In addition, the State's payment delay improved significantly from $236 million at the end of FY2010 to $176 million at the end of FY2011. Offsetting these increases are reductions of $12 million in the other small grants.

Federal revenues decreased by $38 million in FY2011 due to several factors. In FY2010 CPS received $279 million in SFSF funds from the federal government. These funds were not available in FY2011. Additionally, a few other grants saw a decrease in revenues. Title I receipt was delayed, reducing the revenue by $37 million from the FY2010 level; revenues from the IDEA declined by $7 million; and revenues from the School Improvement Grant declined by $2 million. On the other hand, there were increases in ARRA grant revenues of $144 million; Headstart of $42 million; Medicaid reimbursement of $37 million; Title IIA Improving Teacher Quality of $15 million; and Gear up of $1 million. Additionally, the Ed Jobs grant, another stimulus grant, was allocated to CPS in FY2011, generating $48 million of revenues.

Investment earnings - Due to the concern over the recession, the Federal Reserve Bank has kept the interest rate close to zero, which has reduced investment earnings significantly for the past four years. The lower interest income in FY2011 reflected this zero interest rate policy and the sale of agency notes with higher interest rates.

Other local revenues comprise miscellaneous or one-time receipts such as rental income, daycare fees, private foundation grants, school internal account funds, and flow-through employer contributions to the Municipal Employees' Annuity and Benefit Fund of Chicago. Other local revenues increased by $109 million primarily because CPS received $123 million of one-time Tax Increment Financing (TIF) surplus funds declared by the City of Chicago in FY2011. This amount represents an increase of $110 million over the $13 million receipt in FY2010. Other local revenues in total declined by $1 million in FY2011 compared to FY2010.



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Expenditures:
(Millions of Dollars)

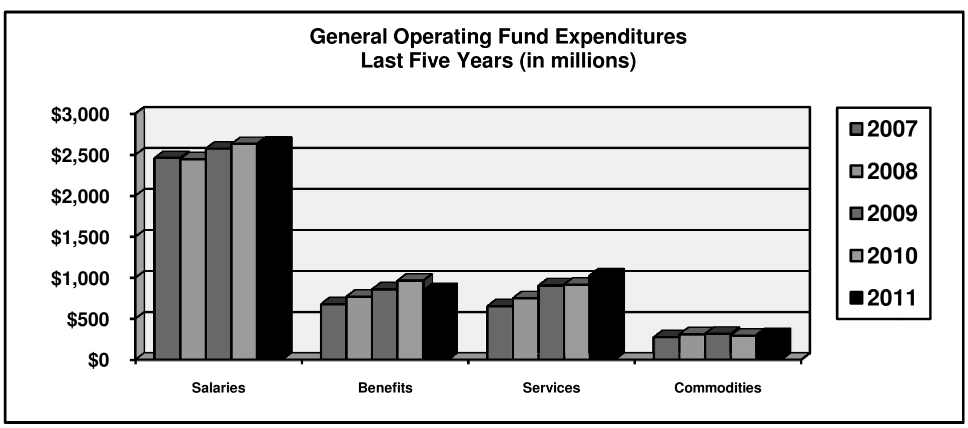
	2011 Amount	2010 Amount	2011 Percent of Total	Increase (Decrease) from 2010	Percent Increase (Decrease) from 2010
Salaries	$ 2,634	$ 2,630	53.6%	$ 4	0.2%
Benefits	845	963	17.2%	(118)	-12.3%
Services	1,026	914	20.9%	112	12.3%
Commodities	299	291	6.1%	8	2.7%
Other	106	98	2.2%	8	8.2%
Total	$ 4,910	$ 4,896	100.0%	$ 14	0.3%

Salaries - In spite of the 4.0% cost of living adjustment and step increases, the total costs for salaries remained flat at the FY2010 level due to a reduction in workforce. The reduction in workforce is a direct result from a declining student enrollment at CPS regular schools over the past several years.

Benefit costs - The primary driver for the decrease of $118 million in total benefit costs is due to Public Act 96-0889, which provided temporary pension funding relief to CPS for FY2011 through FY2013. As a result, CPS saw a net decrease of $170 million in the pension payment to the Chicago Teachers Pension Fund (CTPF), as well as a $2 million decrease in worker's compensation in FY2011. These savings were offset by an increase in healthcare of $43 million, an increase in unemployment costs of $6 million and an increase in Career Service pension payments of $5 million.

Services - Total service costs increased by $112 million for the following reasons. First, charter school tuition payments rose by $51 million due to the addition of 11 new charter schools and their corresponding enrollment. Second, labor costs for security services provided by the Chicago Police Department to CPS high schools increased by $43 million. Third, consulting service costs for Culture of Calm increased by $26 million. Offsetting these increases were decreases in tuition and other professional services of $4 million and $4 million respectively.

Commodities - Total costs for commodities were $8 million higher than last year primarily because payments for electricity increased by $5 million and there were $3 million more purchases of school supplies in FY2011 than in FY2010.



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Capital Projects Fund

The capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities. The use of capital projects funds is required for major capital acquisition and construction activities financed through borrowing or other financing agreements. In FY2011, CPS issued two bonds generating $382 million of net proceeds to fund the on-going capital improvement projects, which was significantly lower than $757 million of net bond proceeds in FY2010.

Revenues and Other Financing Sources
(Millions of Dollars)

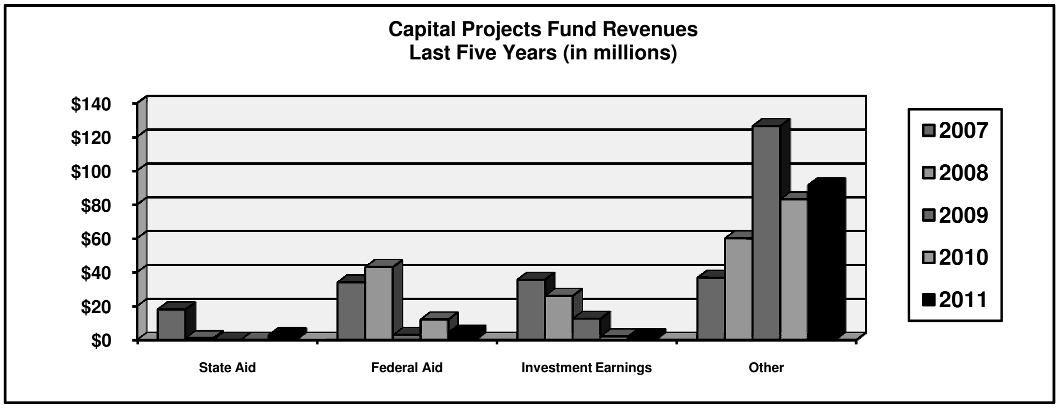
	2011 Amount	2010 Amount	2011 Percent of Total	Increase (Decrease) from 2010	Percent Increase (Decrease) from 2010
State aid……………………………	$ 3	$ -	0.6%	$ 3	100.0%
Federal aid………………………..	4	12	0.8%	(8)	-66.7%
Investment earnings………………	2	2	0.4%	-	0.0%
Other………………………………	92	83	19.1%	9	10.8%
Subtotal…………………………..	$ 101	$ 97	20.9%	$ 4	4.1%
Other financing sources…………	382	757	79.1%	(375)	-49.5%
Total………………………………	$ 483	$ 854	100.0%	$ (371)	-43.4%

State aid - CPS received various small construction grants in the amount of $2 million from the Illinois Capital Development Board (CDB) in fiscal year 2011, as well as $1 million from the Illinois Department of Commerce and Economic Opportunity (IDCEO) for minor capital improvement at schools.

Federal aid - The decline of $8 million in federal revenues primarily results from E-rate reimbursement being lower by $7 million. In addition, fewer noise-abatement projects in FY2011 compared with FY2010 reduced this revenue by $1 million.

Other revenues primarily consist of reimbursement by the City of Chicago for projects eligible under the Tax Increment Financing (TIF) and the Modern Schools Across Chicago (MSAC) programs. The FY2011 TIF reimbursement was higher by $4 million than that in FY2010. Although fewer MSAC projects were completed in FY2011 compared with FY2010, the reimbursement from MSAC was $5 million higher in FY2011 than the year before because delayed payments for projects completed in previous years were received in FY2011.

Other financing sources - The decline of $375 million in Other financing sources primarily reflects decreases in new bond issues for capital projects in FY2011. CPS issued two bonds, Series 2010C and 2010D in the amount of $382 million, which was substantially smaller than $804 million of proceeds, including premiums from bonds issued in FY2010. $47 million out of the $804 million was capitalized interest and transferred into the debt service fund to pay for debt service.

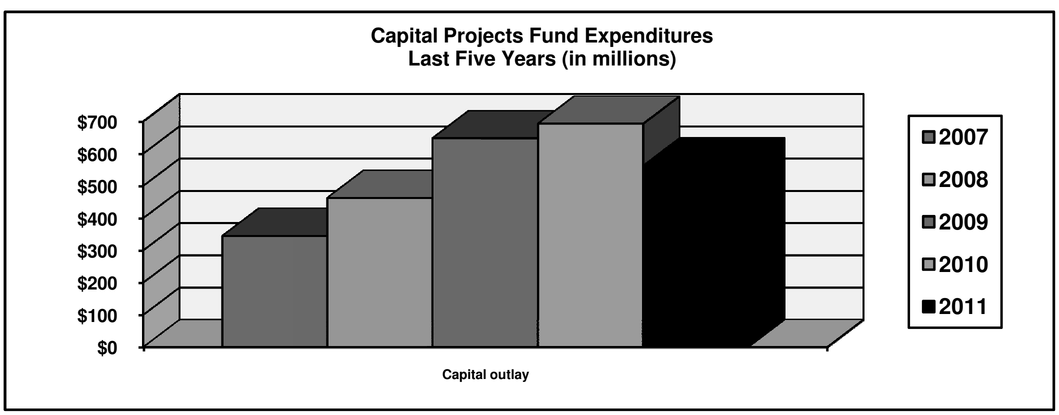


Expenditures:
(Millions of Dollars)

	2011 Amount	2010 Amount	Increase (Decrease) from 2010	Percent Increase (Decrease) from 2010
Capital Outlay	$ 563	$ 692	$ (129)	-18.6%

Capital Outlay

The actual spending on capital outlay decreased by $129 million from the FY2010 level primarily because there were fewer construction projects completed under MSAC in FY2011. Construction under MSAC peaked in FY2010 and fewer projects are left unfinished. There were 16 new school construction projects on-going in FY2011 compared with 23 school buildings in FY2010.



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Debt Service Fund

The debt service fund is established to account for annual property tax levies and other revenues that are used for the payment of principal and interest on bonds, and lease obligations. FY2011 debt service costs declined by $52 million from the FY2010 level because several existing bonds were restructured, lowering the debt payments for two years. As a result of the restructuring, cash held by trustees in the amount of $110 million was transferred to the General Operating Fund, reducing the debt service reserve by the same amount. While the restructuring provided temporary relief, in FY2014, total debt service levels will increase significantly.

Revenues and Other Financing Sources
(Millions of Dollars)

	2011 Amount	2010 Amount	2011 Percent of Total	Increase (Decrease) from 2010	Percent Increase (Decrease) from 2010
Property taxes……………………	$ 33	$ 11	9.8%	$ 22	200.0%
Replacement taxes (PPRT)……….	25	56	7.5%	(31)	-55.4%
State aid……………………………	252	184	75.2%	68	37.0%
Federal aid…………………………	19	8	5.7%	11	137.5%
Investment earnings………………	9	7	2.7%	2	28.6%
Other……………………………….	105	165	31.3%	(60)	-36.4%
Subtotal…………………………..	$ 443	$ 431	132.2%	$ 12	2.8%
Other financing sources (uses)…	(108)	26	-32.2%	(134)	515.4%
Total………………………………	$ 335	$ 457	100.0%	$ (122)	-26.7%

Property tax revenues increased by $22 million in FY2011 because CPS did not abate any of the tax levy associated with the Public Building Commissions (PBC) lease payments. In FY2010, CPS abated $40 million of the PBC tax levy.

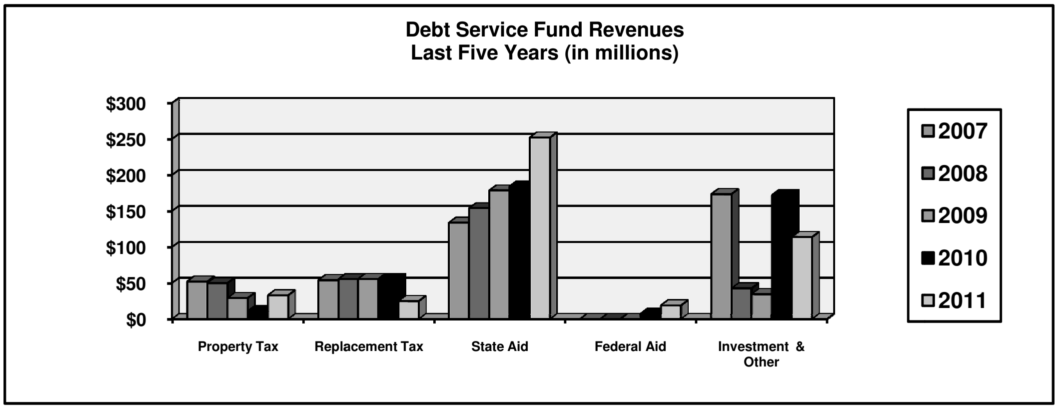
Replacement tax revenues - Because of the restructuring of several bonds backed by replacement tax revenues, replacement tax revenues allocated to these bonds decreased by $31 million in FY2011. The regular level will return in FY2012.

State aid used for debt service funds increased by $68 million in FY2011 for two reasons. First, several bonds supported by the General State Aid (GSA) required an increase of $38 million in GSA revenues for higher debt obligation. Second, CPS received $30 million of construction reimbursement from the State Capital Development Board, which was deposited to the debt service funds for future debt payments.

Federal aid increased by $11 million related to interest subsidies from the federal government for Qualified School Construction Bonds (QSCBs) and Build America Bonds (BABs) that CPS issued in 2009 and 2010. CPS was able to issue these bonds under the ARRA. CPS not only issued more of these bonds in FY2011, but FY2011 was also the first year to receive the interest subsidy for the full year.

Other revenues account for any one-time local revenues or the disbursement of property tax revenues from the City of Chicago based on the inter-governmental agreements (IGA) for capital bonds issued in the late 1990s. The decrease of $60 million in this source from the FY2010 level reflects collection timing issues with IGA revenues in FY2010 and the loss of one-time revenue of $28 million realized in FY2010 when the School Finance Authority expired on June 1, 2010.

Other financing sources decreased by $134 million primarily due to the FY2011 debt restructuring which resulted in transferring $110 million of cash from the trustee accounts to the General Operating Fund. CPS also received $24 million less in bond proceeds in FY2011 as compared to FY2010.



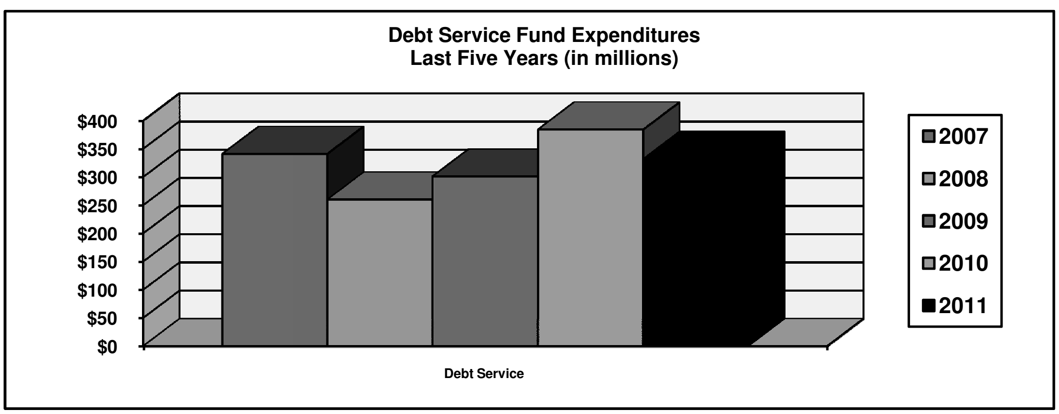
Expenditures:

(Millions of Dollars)

	2011 Amount	2010 Amount	Increase (Decrease) from 2010	Percent Increase (Decrease) from 2010
Debt service	$ 332	$ 384	$ (52)	-13.5%

Debt service costs

As a direct result of the debt restructuring, total debt service costs decreased by $52 million from the FY2010 level. FY2011 principal payments were $68 million lower than the amount last year while interest and fees were $16 million higher than last year.



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.

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General Operating Fund Budget and Actual

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

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

The following schedule presents a summary of the operating fund revenues, expenditures, and other financing sources in comparison with the final budget for the period ending June 30, 2011.

The General Operating Fund ended FY2011 with a surplus of $316 million, which compared very favorably with the budgeted deficit of $ 245 million. This financial performance reflects the Board's conscientious efforts to improve its financial position. The Board achieved this with the benefit of increased revenues, primarily a result of some non-recurring benefits described previously, coupled with limiting operating spending, lowering revenues required for debt service, and directing all non-recurring revenues to the fund balance. Also the state's payment delay improved significantly from $236 million at the end of FY2010 to $176 million at the end of FY2011, which provided more revenues to the operating fund. Major budget-to-actual variances are described below:

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

	FY 2011 Approved Budget	Transfers In/ (Out)	Final Appropriations	FY 2011 Actual	Variance
Revenues:					
Property taxes……………………	$ 1,920	$ -	$ 1,920	$ 1,904	$ (16)
Replacement taxes (PPRT)…….	99	-	99	172	73
State aid…………………………	1,628	-	1,628	1,695	67
Federal aid………………………	1,289	-	1,289	1,122	(167)
Investment earnings…………….	3	-	3	2	(1)
Other………………………………	99	-	99	221	122
Subtotal…………………………	$ 5,038	$ -	$ 5,038	$ 5,116	$ 78
Other financing sources…………	-	-	-	110	110
Total………………………………	$ 5,038	$ -	$ 5,038	$ 5,226	$ 188
Expenditures:					
Salaries……………………………	$ 2,684	$ 77	$ 2,761	$ 2,634	$ (127)
Benefits……………………………	872	(20)	852	845	(7)
Services……………………………	874	212	1,086	1,026	(60)
Commodities………………………	331	36	367	299	(68)
Other fixed charges………………	522	(305)	217	106	(111)
Total………………………………	$ 5,283	$ -	$ 5,283	$ 4,910	$ (373)
Change in fund balance…………	$ (245)			$ 316	

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Property tax revenues

The reduction of $16 million in property tax revenues reflects the change of tax allocation in the debt service funds. Because there was no property tax abatement for PBC bonds for the tax year 2010 in FY2011, the 2011 spring allocation of property tax revenues to debt service funds increased by $21 million over budget, which lowered the tax allocation to operating fund by the same amount. Without the effect of no abatement, the total property tax revenues would be $1.925 billion, slightly higher than the budgeted amount.

Replacement tax

Replacement revenues were higher than the budget by $73 million because of three non-recurring events in FY2011. First, the State offered a tax-amnesty program in fall 2010. Second, the state distributed refund funds that it had not used to pay for corporate refunds in the previous year to CPS. Finally, CPS restructured some of bonds, which reduced PPRT allocation for debt service from the budgeted level in FY2011.

State revenues

The actual state revenues were $67 million higher than budget primarily because the State's payment delay improved significantly as a result of state income tax increases. Compared with $627 million of the budgeted amount, revenues from two block grants totaled $688 million in FY2011, an increase of $61 million over budget. In addition, the state paid off the majority of prior-year and current-year obligations for small grants such as regular orphanage, mentoring, and national board certification, resulting in $6 million of revenue increases above the budget.

Federal revenues

Federal revenues were $167 million lower than the budget for several reasons. First, CPS budgeted $106 million for the Ed Jobs Fund for FY2011 but received only $48 million because CPS decided to utilize this grant over two years. Second, $50 million was budgeted in anticipation of the State of Illinois securing the Race to the Top grant but did not materialize. Third, Title I revenues came in below budget by $52 million because one payment was not received by July 30, 2011. Revenues from the federal special education grants (IDEA) performed below budget by $25 million due to lower spending than the budgeted level. Improving Teacher Quality (Title IIA) generated $46 million, $6 million below budget as a result of lower spending. School Improvement Grant saw a decrease of $6 million from the budget because of lower spending. Other small federal grants such as Striving Readers, 21st Century Community Learning, and Language Acquisition grants experienced decreases of approximately $14 million from the budget. Offsets include Medicaid reimbursement which performed much better than the budget by $23 million and Headstart revenues which were $21 million higher than the budget because FY2011 receipts represent one and a half year's collection.

Investment earnings

The interest income of $2 million in FY2011 was lower than the budget by $1 million primarily because of the close-to-zero interest rate policy and the delay in property tax billing in fall 2010, which lowered the average cash balance available for investment for several months.

Other revenues

Other local revenues comprise miscellaneous or one-time receipts such as rental income, daycare fees, private foundation grants, school internal account funds, and flow-through employer contributions to the Municipal Employees' Annuity and Benefit Fund of Chicago. Other local revenues increased by $122 million over budget primarily because CPS unexpectedly received $123 million of one-time Tax Increment Financing (TIF) surplus funds declared by the City of Chicago in FY2011.

Actual General Operating Fund expenditures were $373 million under budget. The variance is primarily due to:

Salary

Total salary expenditures were below budget by $127 million for a variety of reasons. First, CPS was able to decrease its salary by $35 million from the budgeted level because of fewer teacher positions staffed due to lower enrollment, as well as retirement and vacated positions not being filled. Second, discretionary funds such as SGSA and Title funds hired fewer positions than were budgeted, lowering the salary cost by $21 million below budget. Third, payments for substitute teachers came in lower than the budget by $13 million since there were fewer teachers than before. Fourth, due to vacancy and turn-over, salary costs for lunchroom funds came in below budget by $14 million. Fifth, because of timing of grant awards and vacancy factors, other federal grants spent $44 million below budget on salaries.

Benefit costs
Total benefit costs were below budget by $7 million primarily because healthcare costs came in under budget by $12 million, which was offset by $5 million increases in ESP on-behalf employer pension costs.

Services expenditure
Expenditures for services include student transportation costs, tuition for charter schools and special education institutions, contractual and professional services, printing and equipment rental. FY2011 costs for services totaled $1.026 billion, which is lower than the budget by $60 million. Some of these unspent amounts represent not receiving goods or services by the end of June 30, while others were for services that were not spent in FY2011. The following lists expenditure items that were below budget. Transportation which includes student busing, travel, and car fare came in below budget by $8 million. The delay in the implementation of performance evaluation under the Teacher Incentive Grant resulted in not spending $8 million budgeted for services. Tuition payments for private facilities totaled $7 million less than the budget. Payments for delegate agencies for early childhood education came in below budget by $4 million. Building repair costs were below budget by $3 million. Payments for printing, subscription, rental, and advertising came in below budget by $4 million. Educational services under Title I choice programs was $4 million less than budgeted and other miscellaneous services was $22 million under budget.

Commodities
Spending on commodities were lower than budget by $68 million for five reasons. First, food expenditures were lower than the budget by $15 million because expanding the universal breakfast programs to all schools occurred toward the end of the school year and so less food was needed. Second, because of the low natural gas prices, total utility costs came in under budget by $2 million. Third, contingency for the supplemental GSA fund was budgeted at $16 million for textbooks and $17 million for supplies. None of these was actually spent. Fourth, expenditures on textbooks for summer schools and supplemental education were lower than the budget by $4 million. Finally, schools spent $14 million less than what was budgeted for textbooks, supplies, and other commodities in FY2011.

Other fixed charges
Other fixed charges include unallocated educational program costs, unallocated grant contingency in anticipation of new or expanding grants, equipment costs, miscellaneous charges, facility rental, insurance, and legal claims. Expenditure under Other fixed charges was below budget by $111 million primarily for three major reasons: First, actual payments for insurance and settlements came lower than the budget by $4 million. Second, the FY2011 budget includes a grant contingency of $50 million from the federal Race to the Top grant but it did not materialize. Third, the Ed Jobs grant was initially budgeted for $106 million as grant contingency but only $58 million was spent.

Comparative Budgets for General Operating Fund

In August 2010, the Board adopted a balanced budget for fiscal year 2011 that reflected total resources, including $245 million of available fund balances, and appropriations of $5.283 billion for the General Operating Fund.

In August 2011, the Board adopted a balanced budget for fiscal year 2012 that reflected total resources, including $241 million of available fund balances, and appropriations of $5.110 billion for the General Operating Fund.

Requests for Information

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

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

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

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF NET ASSETS
June 30, 2011

(Thousands of Dollars)

		GOVERNMENTAL ACTIVITIES
Assets:		
Current assets:		
Cash and investments	$	1,157,460
Cash and investments in escrow		778,083
Cash and investments held in school internal accounts		34,840
Property taxes receivable, net of allowance		1,022,827
Other receivables:		
Replacement taxes		24,342
State aid, net of allowance		775,970
Federal aid		277,650
Other, net of allowance		146,247
Other assets		31,526
Total current assets:	$	4,248,945
Non-current assets:		
Land and construction in progress		686,544
Buildings and improvements, equipment, and software, net of accumulated depreciation		5,100,717
Derivative instrument		498
Deferred outflow of resources		132,305
Total non-current assets:	$	5,920,064
Total assets	$	10,169,009
Liabilities:		
Current liabilities:		
Accounts payable	$	464,286
Accrued payroll and benefits		611,484
Amount held for student activities		34,840
Other accrued liabilities		10,549
Unearned revenue		14,321
Interest payable		24,439
Current portion of long-term debt and capitalized lease obligations		107,318
Total current liabilities:	$	1,267,237
Long-term liabilities, net of current portion:		
Debt, net of premiums and discounts		5,689,724
Capitalized lease obligations		301,705
Derivative instrument liability		133,181
Swaption borrowing payable		36,158
Other accrued liabilities		154
Pension		2,262,010
Other postemployment benefits		1,130,197
Other benefits and claims		550,458
Total long-term liabilities:	$	10,103,587
Total liabilities	$	11,370,824
Net assets:		
Invested in capital assets, net of related debt	$	370,159
Restricted for:		
Debt service		469,373
Donations		7,598
Enabling legislation		153,483
Unrestricted (deficit)		(2,202,428)
Total net assets (deficit)	$	(1,201,815)

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

(Thousands of Dollars)

		Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Aseets
Functions/programs					
Governmental activities:					
Instruction	$ 3,712,681	$ 692	$ 537,926	$ 116,280	$ (3,057,783)
Support services:					
Pupil support services	545,428	-	66,647	20,016	(458,765)
Administrative support services	187,559	-	73,676	6,883	(107,000)
Facilities support services	499,093	-	343,994	16,395	(138,704)
Instructional support services	541,714	-	126,226	16,966	(398,522)
Food services	215,609	6,404	171,842	6,758	(30,605)
Community services	47,021	-	47,807	1,539	2,325
Interest expense	285,577	-	-	-	(285,577)
Other	8,845	-	-	-	(8,845)
Total governmental activities	$ 6,043,527	$ 7,096	$ 1,368,118	$ 184,837	$ (4,483,476)

General revenues:	
Taxes:	
Property taxes	$ 2,053,119
Replacement taxes	197,762
Non-program state aid	1,792,747
Interest and investment earnings	17,101
Other	139,201
Total general revenues	$ 4,199,930
Change in net assets	$ (283,546)
Net assets - beginning (deficit)	(918,269)
Net assets - ending (deficit)	$ (1,201,815)

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Totals
Assets:				
Cash and investments	$ 1,038,083	$ -	$ 119,377	$ 1,157,460
Cash and investments in escrow	5,762	433,121	339,200	778,083
Cash and investments held in school internal accounts	34,840	-	-	34,840
Receivables:				
Property taxes, net of allowance	998,644	-	24,183	1,022,827
Replacement taxes	24,342	-	-	24,342
State aid, net of allowance	775,305	665	-	775,970
Federal aid	274,121	200	3,329	277,650
Other, net of allowance	82,314	59,053	4,880	146,247
Due from other funds	198,258	69	51,189	249,516
Other assets	2,095	-	-	2,095
Total Assets	$ 3,433,764	$ 493,108	$ 542,158	$ 4,469,030
Liabilities and fund balances:				
Liabilities:				
Accounts payable	$ 389,156	$ 63,320	$ 11,810	$ 464,286
Accrued payroll and benefits	518,652	-	-	518,652
Amount held for student activities	34,840	-	-	34,840
Due to other funds	51,258	198,258	-	249,516
Deferred property tax revenue	991,254	-	23,963	1,015,217
Other deferred/unearned revenue	708,224	48,646	3,329	760,199
Total liabilities	$ 2,693,384	$ 310,224	$ 39,102	$ 3,042,710
Fund balances:				
Nonspendable	$ 1,972	$ -	$ -	$ 1,972
Restricted for grants and donations	126,855	-	-	126,855
Restricted for workers' comp/tort immunity	91,036	-	-	91,036
Restricted for capital improvement program	-	182,884	-	182,884
Restricted for debt service	-	-	271,643	271,643
Assigned for educational services	289,000	-	-	289,000
Assigned for appropriated fund balance	181,300	-	-	181,300
Assigned for debt service	-	-	231,413	231,413
Assigned for encumbrances	44,924	-	-	44,924
Unassigned	5,293	-	-	5,293
Total fund balances	$ 740,380	$ 182,884	$ 503,056	$ 1,426,320
Total liabilities and fund balances	$ 3,433,764	$ 493,108	$ 542,158	$ 4,469,030

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2011

(Thousands of Dollars)

Total fund balances - governmental funds		$ 1,426,320
Prepaid assets and deferred charges are recorded as expenditures in governmental funds. The Statement of Net Assets includes these amounts as other assets.		
Deferred charges - bond issuance costs		29,431
Derivative instrument		498
Deferred outflow of resources		132,305
The cost of capital assets (land, buildings and improvements and equipment) purchased or constructed is reported as an expenditure in the governmental funds. The Statement of Net Assets includes those capital assets among the assets of the CPS as a whole. The cost of those capital assets are allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in the governmental funds.		
Cost of capital assets		8,668,857
Accumulated depreciation		(2,881,596)
Liabilities applicable to the CPS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest payable on debt and other long-term obligations is not recorded in the governmental funds but they are reported in the Statement of Net Assets. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Other accrued liabilities	$ (10,549)	
Debt, net of premiums and discounts	(5,766,272)	
Capitalized lease obligations	(332,475)	
Pension	(2,262,010)	
Other postemployment benefits	(1,130,197)	
Other benefits and claims	(643,290)	
		(10,144,793)
Interest payable		(24,439)
Arbitrage liability - long term		(154)
Swaption borrowing payable		(36,158)
Derivative instrument liability		(133,181)
Revenues that have been deferred or unearned in the governmental funds because they are not available but are recognized as revenue in the government-wide financial statements.		
Deferred property tax revenue		1,015,217
Other deferred/unearned revenue		745,878
Net assets		$ (1,201,815)

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, 2011
With Comparative Amounts for the Fiscal Year Ended June 30, 2010

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2011	Total Fiscal Year Ended June 30, 2010
Revenues:					
Property taxes	$ 1,904,169	$ -	$ 32,486	$ 1,936,655	$ 2,047,163
Replacement taxes	172,384	-	25,378	197,762	152,497
State aid	1,694,566	2,793	252,422	1,949,781	1,552,076
Federal aid	1,121,457	4,376	19,051	1,144,884	1,180,148
Interest and investment earnings	1,920	2,024	9,455	13,399	12,483
Other	221,391	91,420	104,705	417,516	359,661
Total Revenues	$ 5,115,887	$ 100,613	$ 443,497	$ 5,659,997	$ 5,304,028
Expenditures:					
Current:					
Instruction	$ 2,955,772	$ -	$ -	$ 2,955,772	$ 2,898,855
Pupil support services	508,803	-	-	508,803	416,502
Administrative support services	174,964	-	-	174,964	191,927
Facilities support services	416,765	-	-	416,765	385,726
Instructional support services	431,275	-	-	431,275	432,984
Food services	201,325	-	-	201,325	196,828
Community services	45,848	-	-	45,848	50,331
Teachers' pension and retirement benefits	149,377	-	-	149,377	294,424
Other	8,845	-	-	8,845	11,928
Capital outlay	16,978	563,385	-	580,363	705,691
Debt service	-	-	332,097	332,097	386,597
Total Expenditures	$ 4,909,952	$ 563,385	$ 332,097	$ 5,805,434	$ 5,971,793
Revenues in excess of/(less than) expenditures	$ 205,935	$ (462,772)	$ 111,400	$ (145,437)	$ (667,765)
Other financing sources (uses):					
Gross amounts from debt issuances	$ -	$ 382,125	$ 256,665	$ 638,790	$ 1,083,260
Premiums	-	-	14,700	14,700	6,459
Payment to refunded bond escrow agent	-	-	(269,483)	(269,483)	(288,704)
Transfers in / (out)	109,830	163	(109,993)	-	-
Total other financing sources (uses)	$ 109,830	$ 382,288	$ (108,111)	$ 384,007	$ 801,015
Net change in fund balances	$ 315,765	$ (80,484)	$ 3,289	$ 238,570	$ 133,250
Fund balances, beginning of period	424,615	263,368	499,767	1,187,750	1,054,500
Fund balances, end of period	$ 740,380	$ 182,884	$ 503,056	$ 1,426,320	$ 1,187,750

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2011

(Thousands of Dollars)

Total net change in fund balances - governmental funds		$ 238,570
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	$ 537,372	
Depreciation expense	(212,758)	
		324,614
Proceeds from sales of bonds are reported in the governmental funds as a source of financing, whereas they are recorded as long-term liabilities in the Statement of Net Assets		(638,790)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets		340,505
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities however, interest cost is recognized as the interest accrues, regardless of when it is due		(23,817)
Government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities		(11,644)
Since some property taxes and grants will not be collected for several months after CPS' fiscal year ends, they are not considered as "available" revenues in the governmental funds, and are instead recorded as deferred revenues. They are, however, recorded as revenues in the Statement of Activities. The following represents the change in related deferred revenue balances.		
Property taxes		116,464
Grants		(20,222)
In the Statement of Activities, pollution remediation obligation, legal settlements, sick pay, vacation pay, workers' compensation, general and automobile liability, net pension obligation and other postemployment benefits are measured by the amount accrued during the year. In the governmental funds, expenditures for these items are paid measured by the amount actually paid. The following represents the change during the year for these obligations.		
Pollution remediation obligation		(1,884)
Legal settlements		500
Sick pay		(124,855)
Vacation pay		9,119
Workers' compensation		(6,059)
General and automobile liability		188
Net pension obligation		(293,325)
Other postemployment benefits - teacher		(180,826)
In the Statement of Activities, gain or loss on disposal of capital assets is reported, whereas in the government funds, the entire proceeds are recorded		(12,084)
Change in net assets		$ (283,546)

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

CHICAGO PUBLIC SCHOOLS
Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES BY OBJECT,
OTHER FINANCING SOURCES AND NET CHANGES IN FUND BALANCE
FINAL APPROPRIATIONS VS. ACTUAL - GENERAL OPERATING FUND

For the Fiscal Year Ended June 30, 2011
(Thousands of Dollars)

	Approved Budget	Transfers In / (Out)	Final Appropriations	Fiscal Year Actual	Variance
Revenues:					
Property taxes	$ 1,920,100	$ -	$ 1,920,100	$ 1,904,169	$ (15,931)
Replacement taxes	98,730	-	98,730	172,384	73,654
State aid	1,628,428	-	1,628,428	1,694,566	66,138
Federal aid	1,288,988	-	1,288,988	1,121,457	(167,531)
Interest and investment income	2,600	-	2,600	1,920	(680)
Other	99,239	-	99,239	221,391	122,152
Total revenues	$ 5,038,085	$ -	$ 5,038,085	$ 5,115,887	$ 77,802
Expenditures:					
Salaries--					
Teachers	$ 2,064,712	$ 80,652	$ 2,145,364	$ 2,023,510	$ 121,854
Career services	619,382	(4,058)	615,324	610,741	4,583
Commodities--				-	
Energy	83,448	(1,609)	81,839	83,356	(1,517)
Food	107,294	1,131	108,425	93,766	14,659
Textbooks	80,499	22,375	102,874	70,249	32,625
Supplies	58,967	14,622	73,589	51,125	22,464
Other	674	21	695	478	217
Services--					
Professional fees	354,263	138,326	492,589	450,127	42,462
Charter schools	321,662	54,917	376,579	377,755	(1,176)
Transportation	112,732	2,717	115,449	107,530	7,919
Tuition	54,618	11,032	65,650	59,102	6,548
Telephone and telecommunications	19,575	48	19,623	19,823	(200)
Other	10,979	4,807	15,786	11,789	3,997
Equipment -- educational	30,225	29,212	59,437	41,896	17,541
Building and sites --					
Repairs and replacements	38,044	2,707	40,751	37,355	3,396
Capital outlay	-	5	5	5	-
Fixed charges--					
Teachers' pension	337,218	1,537	338,755	306,111	32,644
Career service pension	97,963	(1,243)	96,720	102,158	(5,438)
Hospitalization and dental insurance	347,670	(14,396)	333,274	353,878	(20,604)
Medicare	37,080	(2,139)	34,941	35,004	(63)
Unemployment compensation	23,868	(3,735)	20,133	21,992	(1,859)
Workers compensation	28,588	(361)	28,227	25,859	2,368
Rent	11,884	413	12,297	11,941	356
Debt service	-	-	-	-	-
Other	441,340	(336,981)	104,359	14,402	89,957
Total expenditures	$ 5,282,685	$ -	$ 5,282,685	$ 4,909,952	$ 372,733
Revenues (less than) expenditures	$ (244,600)	$ -	$ (244,600)	$ 205,935	$ 450,535
Other financing sources					
Transfers in	$ -	$ -	$ -	$ 109,830	$ 109,830
Total other financing sources	$ -	$ -	$ -	$ 109,830	$ 109,830
Net change in fund balance	$ (244,600)	$ -	$ (244,600)	$ 315,765	$ 560,365
Fund balance, beginning of period	424,615	-	424,615	424,615	-
Fund balance, end of period	$ 180,015	$ -	$ 180,015	$ 740,380	$ 560,365

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, 2011

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 2011, CPS adopted the following GASB Statements:

- GASB 54, *Fund Balance Reporting and Governmental Fund type Definitions.* Please refer to the Fund Balance section of Note 1 and Note 13 for required disclosures. This statement established accounting and financial reporting standards for all governments that report governmental funds. It established criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

- GASB 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34,* which had no impact on the current year financial statements.

Other accounting standards that CPS is currently reviewing for applicability and potential impact on the financial statements include:

- GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements,* will be effective for CPS with its year ended June 30, 2013. The objective of this Statement is to improve financial reporting by addressing uses related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement establishes recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators.

- GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* will be effective for CPS beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

- GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows or Resources, and Net Position,* will be effective for CPS beginning with its year ending June 30, 2013. The objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

- GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment to GASB Statement No. 53,* will be effective for CPS beginning with its year ending June 30, 2012. The objective of this statement is to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

Description of Government-Wide Financial Statements

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 30 days of fiscal year end. For this purpose, the CPS also considers State aid, Federal aid and replacement tax revenues that are susceptible to accrual to be available if they are collected within 30 days of fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, other postemployment benefits, net pension obligations, and pollution remediation obligations, are recorded only when payment is due.

Funds

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

Governmental Funds

a. General Operating Fund

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

Educational Program
Supplementary General State Aid Program
School Food Service Program
Elementary and Secondary Education Act (ESEA) Program
Individuals with Disabilities Education Act (IDEA) Program
American Recovery and Reinvestment Act of 2009 (ARRA)
Workers' and Unemployment Compensation/Tort Immunity Program
Public Building Commission Operations and Maintenance Program
Other Government-Funded Programs

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

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

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

c. Debt Service Fund

The Debt Service Fund includes the following programs:

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

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

Restricted Assets

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

Receivables and Payables

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

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. Calendar year 2010 property taxes were levied for fiscal year 2011 in December 2010, and were billed in fiscal year 2011. In 2011, the installment due dates were April 1 and November 1. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. The treasurers of Cook and DuPage counties, who distribute such receipts to the CPS, receive collections of property tax installments. The CPS' property tax becomes a lien on real property on January 1 of the year for which it is levied. The levy becomes an enforceable lien against the property as of January 1 of the levy year. CPS does not record a receivable nor related deferred revenue until the Board passes the levy for the current fiscal year.

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

Capital Assets

Capital assets, which include land, construction in progress, buildings, building improvements and equipment are reported in the governmental activities columns in the government-wide financial statements. Land, buildings and building improvements are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for equipment is a unit cost of $25,000 or more. Donated capital assets are recorded at estimated fair market value at date of donation. In FY2010, CPS implemented GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets* reporting internally developed software with a capitalization threshold of $75,000 or more.

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

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

Beginning in fiscal year 2005, CPS implemented procedures related to impaired assets. Generally, a capital asset is considered impaired when its service utility has declined significantly and the events or changes in the circumstances are unexpected or outside the normal life cycle. There were no capital asset impairments during fiscal year 2011.

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

Assets	Years
Buildings and building improvements	25-50
Administrative software/systems	20
Internally developed software	3
Equipment	5

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

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

Vacation and Sick Pay

The CPS provides vacation and sick pay benefits for substantially all of its employees. Accrued sick pay benefits were computed using the termination payment method. The liability for accrued vacation pay benefits was computed using the employee's actual daily wage. Please refer to Note 11 for accruals.

Long-term Obligations

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

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

Swaps

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

Fund Balances

Effective July 1, 2010, CPS adopted the provisions of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. In addition, GASB 54 modified certain fund type definitions and provided guidance for classification of stabilization amounts on the face of the balance sheet.

Within the governmental fund types, CPS' fund balances are reported in one of the following classifications:

Nonspendable – includes amounts that cannot be spent because they are either: a) not in spendable form; or b) legally or contractually required to be maintained intact.

Restricted – includes amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Assigned – includes amounts that are constrained by CPS' *intent* to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by: a) CPS' Board of Education itself; or b) a body or official to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. CPS' Board of Education delegated authority to the Chief Financial Officer and Chief Purchasing Officer to assign amounts for a specific purpose within the General Operating Fund. Within the other governmental fund types (debt service and capital projects) resources are assigned in accordance with the established fund purpose and approved budget/appropriation. Residual fund balances in these fund types that are not restricted or committed are reported as assigned.

Unassigned – includes the residual fund balance that has not been restricted, committed, or assigned within the general fund and deficit fund balances of other governmental funds.

In the general operating fund and other governmental funds (capital projects and debt service fund types), it is CPS' policy to consider restricted resources to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

Net Assets

The Statement of Net Assets includes the following:

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

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

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

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

Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CPS' financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Management's Use of Estimates

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

Reclassifications

Certain items in the 2010 financial statements have been reclassified to conform to the 2011 presentation. These reclassifications had no impact on the change in net assets as previously reported.

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.

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.

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 2011. Actual expenditures in the Capital Projects Fund include expenditures on projects that were budgeted in the current and prior fiscal years.

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE

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

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

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

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

Legal limitations on tax rates and the rates extended in calendar years 2011 and 2010 are shown below.

	Maximum 2011 Legal Limit	Tax Rates Extended Per $100 of EAV 2011	2010
General Operating Fund:			
Educational	(A)	$ 2.449	$ 2.204
Workers' and Unemployment Compensation/Tort Immunity	(B)	0.067	.148
Debt Service Fund:			
Public Building Commission Leases Program	(C)	0.065	.014
		$ 2.581	$ 2.366

A. The maximum legal limit for educational purposes cannot exceed $4.00 per $100 of EAV (105 ILCS 5/34-53), and the total amount billed under General Operating Fund is subject to the PTELL as described above.

B. These tax rates are not limited by law, but are subject to the tax cap as described above.

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

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

	Fund Financial Statements	**Government Wide- Financial Statements**
Revenues:		
General state aid unrestricted	$ 902,412	$ 902,412
Supplementary general state aid	261,000	261,000
General education block grant	122,660	130,416
Educational services block grant	564,989	498,919
Other restricted state revenue	98,720	99,770
Total state aid	$ 1,949,781	$ 1,892,517
Program Revenues:		
Operating grants and contributions		(99,770)
Non-program general state aid		$ 1,792,747

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 Public Building Commission (PBC) Leases. The cash and investments in escrow in the Capital Projects Fund represent the unspent proceeds from the Unlimited Tax General Obligation Bonds, PBC Building Revenue Bonds 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 CPS. Collateral shall be only those securities authorized as allowable investments.

As of June 30, 2011, the book amount of the CPS' deposit accounts was $12.4 million. The bank balances totaled $39.8 million as of June 30, 2011. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2011. The bank balance was covered by Federal Depository Insurance and by collateral held by third-party custodians.

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

Investments

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

The CPS Investment Policy contains the following stated objectives:

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

At June 30, 2011, CPS had the following investments ($000's) and maturities:

Investment Type	Ratings*	Carrying Amount	Maturities Less Than 1 Year	Maturities 1-5 Years
Repurchase Agreements	AAA	$ 42,208	$ 42,208	$ -
U.S. Government Agency Securities	AAA	455,891	100,692	355,199
U.S. Treasury Notes	AAA	26,335	12,000	14,335
Commercial Paper	A1 / P-1	249,905	249,905	-
Money Market Mutual Funds	AAA	1,183,672	1,183,672	-
Total Investments		$ 1,958,011	$ 1,588,477	$ 369,534
Cash		12,372		
Total Cash and Investments		$ 1,970,383		

* In August 2011, Standard and Poor's downgraded long-term U.S. debt (Government Agency Securities and Treasury Notes) from AAA to AA+.

Credit Risk — State law and the CPS Investment Policy limit investment in repurchase agreements, unless registered or inscribed in the name of the Board, to those purchased through banks or trust companies authorized to do business in the State of Illinois. State law and the CPS Investment Policy limit investment in commercial paper to the top two ratings issued by at least two standard rating services. As of June 30, 2011, CPS' investments in commercial paper were rated A1+ or A1 by Moody's Investment Service and P-1 by Standard and Poor's. As of June 30, 2011, Standard and Poor's rated CPS' investments in money market mutual funds AAA as required by the CPS Investment Policy.

Concentration of Credit Risk — As of June 30, 2011, there were no investments in any one issuer that represent 5% or more of the total investments. Investments issued by the U.S. government and investment in mutual funds are excluded from the concentration of credit risk.

Custodial Risk — During the fiscal year ended June 30, 2011, all of CPS' investments were supported by collateral with an aggregate market value equal to at least 102% of amounts invested. The collateral consisted of securities that were permissible under the CPS Investment Policy. Third-party custodians held all collateral in CPS' name.

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

The following table provides a summary of CPS' total cash and investments as of June 30, 2011 ($000's):

Fund:	Amount
General Operating Fund	$1,078,685
Capital Projects Fund	433,121
Debt Service Fund	458,577
Total Cash and Investments	$ 1,970,383

NOTE 5. RECEIVABLES

Receivables as of June 30, 2011 for CPS, net of the applicable allowance for uncollectible accounts, are as follows ($000's):

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fund Financial Statements	Government-Wide Financial Statements
Property taxes	$1,070,931	$ -	$ 26,045	$ 1,096,976	$ 1,096,976
Replacement taxes	24,342	-	-	24,342	24,342
State aid	779,147	665	-	779,812	779,812
Federal aid	274,121	200	3,329	277,650	277,650
Other	85,647	59,053	4,880	149,580	149,580
Total Receivables	$2,234,188	$ 59,918	$ 34,254	$ 2,328,360	$ 2,328,360
Less: Allowance for uncollectibles – property tax	(72,287)	-	(1,862)	(74,149)	(74,149)
Less: Allowance for uncollectibles – state aid	(3,842)	-	-	(3,842)	(3,842)
Less: Allowance for uncollectibles – other	(3,333)	-	-	(3,333)	(3,333)
Total Receivables, net	$2,154,726	$ 59,918	$ 32,392	$ 2,247,036	$ 2,247,036

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, 2011, the components of deferred revenue reported in the fund financial statements are as follows ($000's):

Deferred property taxes	$ 1,015,217
Other deferred revenue	743,061
Unearned revenue	17,138
Total deferred revenue	$ 1,775,416

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 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	$ 298,209	$ 18,810	$ (3,253)	$ 313,766
Construction in progress	648,166	303,716	(579,104)	372,778
Total capital assets not being depreciated	$ 946,375	$ 322,526	$ (582,357)	$ 686,544
Capital assets being depreciated:				
Buildings and improvements	$ 7,110,516	$ 790,159	$ (85,303)	$ 7,815,372
Equipment and administrative software	156,634	5,625	(157)	162,102
Internally developed software	3,406	1,433	-	4,839
Total capital assets being depreciated	$ 7,270,556	$ 797,217	$ (85,460)	$ 7,982,313
Total Capital Assets	$ 8,216,931	$ 1,119,743	$ (667,817)	$ 8,668,857
Less accumulated depreciation for:				
Buildings and improvements	$ (2,701,219)	$ (203,852)	$ 73,204	$ (2,831,867)
Equipment and administrative software	(40,980)	(7,771)	157	(48,594)
Internally developed software	-	(1,135)	-	(1,135)
Total accumulated depreciation	$ (2,742,199)	$ (212,758)	$ 73,361	$ (2,881,596)
Capital Assets, net of depreciation	$ 5,474,732	$ 906,985	$ (594,456)	$ 5,787,261

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

Governmental activities:	
Instruction	$ 134,118
Pupil support services	23,086
Administrative support services	7,939
Facilities support services	18,911
Instructional support services	19,569
Food services	9,135
Total depreciation	$ 212,758

Construction Commitments

CPS had active construction projects as of June 30, 2011. These projects include new construction and renovations of schools. At year-end, CPS had approximately $353.7 million in outstanding construction encumbrances.

NOTE 7. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

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

General Operating Fund:	
Due from Capital Improvement Program	$198,258
Due to Capital Asset Program	(69)
Due to Bond Redemption and Interest Program	(51,189)
Total — Due from other Funds	$ 147,000
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	$ 69
Capital Improvement Program — Due to General Operating Fund	(198,258)
Total — Due to other Funds	$ (198,189)
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund	$ 51,189

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

In fiscal year 2011, CPS transferred to the General Operating Fund $109.8 million of debt restructuring savings from the Bond Redemption and Interest Program and $0.02 million of interest earnings from the PBC Leases program. In addition, CPS also made an operating transfer of $0.16 million from the Debt Service Fund to the Capital Projects Fund to return excess capitalized interest.

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

CPS issued the following bonds in fiscal year 2011:

Unlimited Tax General Obligation Refunding Bonds (Series 2010C)

In October 2010, CPS issued $257.1 million in Unlimited Tax General Obligation Qualified School Construction Bonds (Series 2010C). 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 $255.2 million in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

Unlimited Tax General Obligation Bonds Taxable Build America Bonds (Series 2010D)

In October 2010, CPS issued $125 million in Unlimited Tax General Obligation Taxable Build America Bonds (Series 2010D). 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 $124.1 million in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues and Federal interest subsidy payments.

Unlimited Tax General Obligation Refunding Bonds (Series 2010FG)

In October 2010, CPS issued $256.7 million in Unlimited Tax General Obligation Refunding Bonds (Series 2010FG) at a premium of $14.7 million. The proceeds from these bonds are being used to refund the Series 1996, Series 1997, Series 2000A, Series 2000BCD, Series 2001A, Series 2001C, Series 2003A, Series 2004A, Series 2006B, Series 2007D, Series 2008B, Series 2009C, Series 2009D and Series 2009F bonds. As a result of the issuance, $269.5 million was deposited in a trust to refund the bonds. The debt service on this issuance will be paid from General State Aid revenues.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $17.7 million. This difference reported in the accompanying financial statements as a deduction from bonds payable is being charged to operations over the life of the refunding or refunded bonds, whichever is shorter. The refunding bonds were issued primarily to provide budget relief to CPS' General Operating Fund by deferring principal payments. However, a portion of the refunding was for economic savings. Accordingly, the refunding resulted in an overall economic gain of $1.4 million.

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Note 8. LONG-TERM DEBT

Following is a summary of changes in long-term debt outstanding ($000's):

Series	Orginal Amount Issued	Debt Purpose	Interest Rate	Final Maturity	Principal Outstanding June 30, 2010
2010G…………………………….	$ 72,915	Refunding	2.77% to 4.18%	12/1/2017	
2010F…………………………….	183,750	Refunding	5.00%	12/1/2031	
2010D…………………………….	125,000	Capital Improvement	6.52%	3/1/2036	
2010C…………………………….	257,125	Capital Improvement	6.32%	11/1/2029	
2010B…………………………….	157,055	Refunding	Variable	3/1/2036	$ 157,055
2010A…………………………….	48,910	Refunding	Variable	3/1/2035	48,910
2009G…………………………….	254,240	Capital Improvement	1.75%	12/15/2025	254,240
2009F…………………………….	29,125	Capital Improvement	2.50% to 5.00%	12/1/2016	29,125
2009E…………………………….	518,210	Capital Improvement	4.682% to 6.14%	12/1/2039	518,210
2009D…………………………….	75,720	Refunding	1.00% to 5.00%	12/1/2023	71,380
2009C…………………………….	20,265	Refunding	Variable	-	13,815
2009B…………………………….	75,410	Refunding	Variable	3/1/2031	75,410
2009A…………………………….	130,000	Refunding	Variable	3/1/2026	130,000
2008C…………………………….	464,655	Refunding	4.25% to 5.00%	12/1/2032	464,655
2008B…………………………….	240,975	Refunding	Variable	3/1/2034	231,050
2008A…………………………….	262,785	Refunding	Variable	12/1/2030	262,785
2007D…………………………….	238,720	Capital Improvement	4.00% to 5.00%	12/1/2029	226,190
2007BC…………………………….	204,635	Refunding	4.125% to 5.00%	12/1/2024	204,035
2006B…………………………….	355,805	Capital Improvement	4.25% to 5.00%	12/1/2036	340,975
2006A…………………………….	6,853	Capital Improvement	0.00%	6/1/2021	6,853
2005B…………………………….	52,595	Refunding	5.00% to 5.50%	12/1/2021	52,595
2005A…………………………….	193,585	Refunding	5.00% to 5.50%	12/1/2031	193,585
2004G…………………………….	12,500	Capital Improvement	4.00% to 6.00%	12/1/2022	12,500
2004A…………………………….	205,410	Refunding	4.00% to 5.00%	12/1/2020	205,410
2003C…………………………….	4,585	Capital Improvement	0.00%	10/27/2017	4,585
2003A…………………………….	75,890	Capital Improvement	2.50% to 5.25%	12/1/2016	47,945
2002A…………………………….	48,970	Capital Improvement	3.00% to 5.25%	12/1/2022	44,365
2001C…………………………….	217,260	Capital Improvement	5.00% to 5.50%	12/1/2031	15,075
2001B…………………………….	9,440	Capital Improvement	0.00%	10/23/2015	9,440
2001A…………………………….	45,110	Capital Improvement	4.00% to 5.75%	12/1/2031	2,990
2000E…………………………….	13,390	Capital Improvement	0.00%	12/18/2013	13,390
2000B,C,D……………………….	303,000	Capital Improvement	Variable	3/1/2032	299,400
2000A…………………………….	106,960	Capital Improvement	5.10% to 6.00%	12/1/2031	14,160
IDFA 1999A…………………….	12,000	Capital Improvement	0.00%	12/21/2011	12,000
1999A…………………………….	532,553	Capital Improvement/ Refunding	4.30% to 5.30%	12/1/2031	504,688
1998B-1………………………….	328,714	Capital Improvement	4.55% to 5.22%	12/1/2031	310,889
1998…………………………….	14,000	Capital Improvement	0.00%	9/23/2011	14,000
1997A…………………………….	499,995	Capital Improvement	5.30% to 5.55%	12/1/2030	37,985
1997…………………………….	500,000	Capital Improvement	5.08% to 6.75%	-	39,245
1996…………………………….	350,000	Capital Improvement	4.80% to 6.25%	-	35,575
Total Bonds………………………					$ 4,904,510

Less Current Portion ……………………………………………………………………………..

Deferred Amounts:
On Refunding……………………………………………………………………………………
For Net Premium/ (Discount) ………………………………………………………………….
Total Long-term Debt, net of Current Portion and Premium/Discount…………………………………………………………

Accreted Interest	Principal and Accreted Interest June 30, 2010	Issuances	Retirements	Principal Outstanding June 30, 2011	Accreted Interest	Principal and Accreted Interest June 30, 2011
	$ -	$ 72,915		$ 72,915		$ 72,915
	-	183,750		183,750		183,750
	-	125,000		125,000		125,000
	-	257,125		257,125		257,125
	157,055			157,055		157,055
	48,910			48,910		48,910
	254,240			254,240		254,240
	29,125		(5,375)	23,750		23,750
	518,210			518,210		518,210
	71,380		(8,170)	63,210		63,210
	13,815		(13,815)	-		-
	75,410			75,410		75,410
	130,000			130,000		130,000
	464,655			464,655		464,655
	231,050		(16,875)	214,175		214,175
	262,785			262,785		262,785
	226,190		(22,325)	203,865		203,865
	204,035		(320)	203,715		203,715
	340,975		(20,200)	320,775		320,775
	6,853			6,853		6,853
	52,595			52,595		52,595
	193,585			193,585		193,585
	12,500			12,500		12,500
	205,410		(2,990)	202,420		202,420
	4,585			4,585		4,585
	47,945		(41,150)	6,795		6,795
	44,365		(1,825)	42,540		42,540
	15,075		(15,075)	-		-
	9,440			9,440		9,440
	2,990		(2,990)	-		-
	13,390			13,390		13,390
	299,400		(14,200)	285,200		285,200
	14,160		(14,160)	-		-
	12,000			12,000		12,000
210,007	714,695		(23,020)	481,668	217,600	699,268
251,113	562,002		(16,843)	294,046	267,035	561,081
	14,000			14,000		14,000
36,415	74,400		-	37,985	40,500	78,485
	39,245		(39,245)	-		-
	35,575		(35,575)	-		-
$ 497,535	$ 5,402,045	$ 638,790	$ (294,153)	$ 5,249,147	$ 525,135	$ 5,774,282
						(76,548)
						(106,996)
						98,986
						$ 5,689,724

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

Bonds	$ (57,871)
Accreted interest	(25,729)
Refunding	7,052
Subtotal	$ (76,548)
Lease obligations	(30,770)
Total current portion	$ (107,318)

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

Defeased Debt

Defeased bonds have been removed from the Statement of Net Assets because related assets have been placed in an irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at June 30, 2011 are as follows ($000's):

Description	Amount Defeased	Amount Outstanding*
Unlimited Tax General Obligation Bonds Series 1996	$ 24,430	$ 24,430
Unlimited Tax General Obligation Bonds Series 1997	27,010	27,010
Unlimited Tax General Obligation Bonds Series 2001A	37,855	37,855
Unlimited Tax General Obligation Bonds Series 2001C	184,880	184,880
Unlimited Tax General Obligation Bonds Series 2003A	35,250	35,250
Unlimited Tax General Obligation Refunding Bonds Series 2004A	2,990	2,990
Unlimited Tax General Obligation Bonds Series 2004F	25,000	25,000
Unlimited Tax General Obligation Bonds Series 2004H	18,500	18,500
Unlimited Tax General Obligation Bonds Series 2005C	53,750	46,450
Unlimited Tax General Obligation Refunding Bonds Series 2006B	13,770	13,770
Unlimited Tax General Obligation Bonds Series 2007D	15,175	15,175
Unlimited Tax General Obligation Refunding Bonds Series 2009D	8,170	8,170
Unlimited Tax General Obligation Refunding Bonds Series 2009F	5,375	5,375
Total	$ 452,155	$ 444,855

*The amount outstanding represents the principal amount of the defeased bonds to be paid by the irrevocable trust at a future maturity date.

Future debt and associated swap payments (see Note 10). Interest rates on fixed rate bonds range from 1.75% to 6.75%, except that CPS does not pay or accrue interest on the Series 2006A Bonds, the Series 2003C Bonds, the Series 2001B Bonds, the Series 2000E Bonds, the IDFA Series 1999A Bonds and the Series 1998 Bonds. These bond series were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own these bonds will be entitled to a credit against taxable income. Interest rates on unhedged variable rate bonds assume the debt service deposit requirement rate and net swap payments assume that variable rates as of June 30, 2011 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):

Fiscal Year(s)	Fixed Rate Bonds Principal	Fixed Rate Bonds Interest	Variable Rate Bonds Principal	Variable Rate Bonds Interest*	Interest Rate Swaps, Net**	Total
2012	$ 57,871	$ 199,503	$ -	$ 19,921	$ 36,456	$313,751
2013	33,578	204,234	7,395	19,884	36,456	301,547
2014	128,272	208,023	19,360	19,782	36,195	411,632
2015	136,527	205,772	21,015	19,384	35,924	418,622
2016	138,586	202,925	22,605	18,979	35,642	418,737
2017-2021	776,565	952,609	141,165	85,794	171,818	2,127,951
2022-2026	1,109,929	888,372	250,820	63,934	153,628	2,466,683
2027-2031	1,003,603	844,415	512,580	31,413	90,810	2,482,821
2032-2036	393,611	305,017	198,595	1,881	17,129	916,233
2037-2041	297,070	48,408	-	-	-	345,478
Total	$4,075,612	$4,059,278	$1,173,535	$280,972	$ 614,058	$10,203,455

* Interest on Series 2000BCD unhedged variable rate demand notes was calculated at an assumed rate of 6.0% per annum, (equals annual debt service deposit requirements); Interest on hedged variable rate demand notes assume current interest rates remain the same as of June 30, 2011, and was calculated as follows:

Series 2000C — 2.7500%
Series 2008A — 0.9410%
Series 2008B — 0.9410%
Series 2009A — 0.0684%
Series 2009B — 0.0640%
Series 2010A — 0.0640%
Series 2010B — 0.0640%

** Series 2000C computed: (3.823% — 0.129885%) x Outstanding Principal
Series 2008A computed: (3.771% — 0.129885%) x Outstanding Principal
Series 2008B computed: (5.250% — 0.409885%) x Outstanding Principal
Series 2009A computed: (3.6617% — 0.129885%) x Outstanding Principal
Series 2009B computed: (3.825% — 0.129885%) x Outstanding Principal
Series 2010A computed: (3.825% — 0.129885%) x Outstanding Principal
Series 2010B computed: (3.6617% — 0.129885%) x Outstanding Principal

Variable rate bonds are demand obligations that allow bondholders to demand repayment on a weekly basis. The $303,000,000 Series 2000BCD bonds are supported by Standby Bond Purchase Agreements with Dexia Credit Locale which expire on December 8, 2012. Under the Standby Bond Purchase Agreements, any bonds put to the bank would incur an interest rate equal to the Prime Rate as listed in the Wall Street Journal through December 8, 2012, at the Prime Rate plus 1.0% thereafter, and at the Prime Rate plus 2.0% in the event of a default, but in no case may the rate exceed 15%. The commitment fee is 0.125% per annum for the Series 2000BCD bonds and at June 30, 2011 there were no bonds drawn under the Standby Bond Purchase Agreement. The scheduled maturity of the bonds will not change if the Standby Purchase Agreements are not renewed.

The $65,000,000 Series 2009A-1 are supported by a Letter of Credit Facility with Harris Bank NA and $65,000,000 Series 2009A-2 are supported by The Northern Trust Company both expire on March 17, 2012. Under the Letter of Credit Agreements, any bonds put to the bank would incur an interest rate equal to the greater of the Prime Rate, Federal Funds Rate plus ½ of 1%, and Libor Quoted Rate plus 1% (the Base Rate) for the first 7 days. For the 8th through 90th day interest would incur at the Base Rate plus 1.0%, for the 91st through 180th day interest would incur at the Base Rate plus 2.0% and thereafter, or in the event of default, the interest rate is the greater of the Prime Rate, Federal Funds Rate plus ½ of 1%, and Libor Quoted Rate plus 1%, plus 3.00% for the first 180 days, thereafter at the maximum rate allowed under Illinois law not to exceed 15% per annum. The commitment fee is 0.85% per annum for

the Series 2009A bonds and at June 30, 2011 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change in any event.

The $75,410,000 Series 2009B is supported by a Letter of Credit Facility with US Bank which expires on June 24, 2012 for Series 2009B. Under the Letter of Credit Agreements, any bonds put to the bank would incur an interest rate equal to the greater of the Prime Rate and Libor Quoted Rate plus 2% (the Base Rate) for the first 89 days. For the 90th through 179th day interest would incur at the Base rate plus 3.5%, and for the 180th day and thereafter at the maximum rate allowed under Illinois law, not to exceed 15% per annum. In the event of default, the interest rate would be the Base Rate, plus 5.5% for the first 180 days; thereafter at the maximum rate allowed under Illinois law, not to exceed 15% per annum. The commitment fee is 1.55% per annum for the Series 2009B bonds, and at June 30, 2011 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change in any event.

The $48,910,000 Series 2010A and $157,055,000 Series 2010B are supported by a Letter of Credit Facility with JP Morgan Bank which expires on February 17, 2013 for Series 2010AB. Under the Letter of Credit Agreements, any bonds put to the bank would incur an interest rate equal to the greater of the Prime Rate plus 1.50%, the Federal Funds Rate plus 2.0% or 5.0% for the first 90 days. For the 91st day and thereafter interest would incur at the greater of the Prime Rate plus 2.5%, the Federal Funds Rate plus 3.0% or 7.50%. In the event of default, the interest rate would be the greater of the Prime Rate, plus 2.50%, Federal Funds rate plus 3.00% or 7.50% and in each case plus 3.00%; but in no case may the rate exceed the maximum rate allowed under Illinois law, not to exceed 15% per annum. The commitment fee is 1.25% per annum for the Series 2010AB bonds and at June 30, 2011 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change in any event.

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

Series	Accreted Interest June 30, 2010	Increase	Payment	Accreted Interest June 30, 2011
1997A	$ 36,415	$ 4,085	$ -	$ 40,500
1998B-1	251,113	28,443	(12,521)	267,035
1999A	210,007	23,884	(16,291)	217,600
	$497,535	$56,412	$(28,812)	$525,135

NOTE 9. LEASE OBLIGATIONS

Capitalized Leases

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

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

In 2006, CPS entered into a $3.7 million lease with an option to purchase with the Teachers Academy of Math and Science. The assets acquired under this lease are land and building at a cost of $0.7 million and $3 million, respectively. The term of the lease commenced October 1, 2005 and shall end February 1, 2021. This end date represents the maturity date of bonds issued for the premises by the Illinois Development Finance Authority Bonds. Debt service includes principal and interest and all other costs associated with these bonds. Additionally, CPS will assume all operating costs and personnel costs of the premises.

The future PBC lease rentals and other capitalized leases due at June 30, 2011, are as follows ($000's):

Fiscal Year(s)	PBC Lease Rentals	Other	Total
2012	$ 51,926	$ 424	$ 52,350
2013	51,963	424	52,387
2014	51,981	424	52,405
2015	52,029	424	52,453
2016	51,997	424	52,421
2017-2021	186,823	1,989	188,812
Total rentals	$ 446,719	$ 4,109	$ 450,828
Less—Interest and other costs	(116,344)	(2,009)	(118,353)
Principal amount of rental due	$ 330,375	$ 2,100	$ 332,475

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
PBC leases	$ 359,215	$ -	$ (28,840)	$ 330,375
Other capitalized leases	2,275	-	(175)	2,100
	$ 361,490	$ -	$ (29,015)	$ 332,475
Less: Current portion PBC leases				(30,595)
Current portion other capitalized leases				(175)
Total long-term leases outstanding				$ 301,705

Operating Leases

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

Total expenditures for operating leases for the fiscal year ending June 30, 2011 were $18.2 million. Following is a summary of operating lease commitments as of June 30, 2011 (000's):

Fiscal Year(s)	Non-real property leases	Real property leases	Total
2012	$ 7,412	$ 10,565	$ 17,977
2013	4,728	9,992	14,720
2014	2,452	9,779	12,231
2015	705	8,665	9,370
2016	58	3,310	3,368
2017-2021	-	12,518	12,518
2022-2026	-	3,992	3,992
Total operating lease commitments	$ 15,355	$ 58,821	$ 74,176

NOTE 10. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

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

Interest Rate Derivatives

CPS has ten interest rate swaps as of June 30, 2011. Interest rate swaps are classified as hedging derivative instruments, if the hedging instruments meet the criteria of paragraph 27 a and b of GASB 53, or are classified as investment derivative instruments. The following table summarizes the interest rate swaps outstanding as of the end of the period: ($000's)

Potential Hedging Derivative

Type	Notional amount	Trade Date	Effective Date	Termination Date	Counterparty
Pay Fixed Swap	$ 61,100	02/13/2007	03/01/2007	03/01/2032	Royal Bank of Canada
Pay Fixed Swap	100,000	08/18/2005	12/01/2007	12/01/2030	Bank of America, N.A.
Pay Fixed Swap	162,785	11/16/2006	12/01/2007	12/01/2028	Royal Bank of Canada
Pay Fixed Swap	90,000	12/08/2003	12/12/2003	03/01/2034	Goldman Sachs Capital Markets, L.P.
Pay Fixed Swap	95,350	12/08/2003	12/12/2003	03/01/2034	Goldman Sachs Bank USA
Pay Fixed Swap	130,000	11/30/2005	12/08/2005	03/01/2026	Loop Financial Products I LLC
Pay Fixed Swap	124,320	02/13/2007	03/01/2007	03/01/2035	Royal Bank of Canada
Pay Fixed Swap	157,055	11/30/2005	12/08/2005	03/01/2036	Loop Financial Products I LLC
Basis Swap	116,151	10/05/2005	11/01/2005	12/01/2031	Loop Financial Products I LLC
Basis Swap	77,434	10/05/2005	11/01/2005	12/01/2031	Merrill Lynch Capital Services, Inc.

Evaluation of Hedge Effectiveness

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

Hedging Derivative Instruments	**Results**
Consistent Critical Terms Method:	All derivatives failed
Synthetic Instrument Method:	All derivatives failed
Dollar-Offset Method:	All derivatives failed
Regression Analysis Method:	Passed: $61.1M Swap, $100M Swap, $162.785M Swap, $90M Swap, $95.35M Swap, $130M Swap, $124.32M Swap, $157.055M Swap. Failed: $116.2M Basis swap, $77.4M Basis swap

As of June 30, 2011, eight of ten potential hedging derivatives are effective hedges under GASB 53. The Basis Swaps do not meet the criteria of paragraph 27 b and are classified according to GASB 53 as investment derivatives and therefore are marked to market at each report date with change in fair value reported as part of investment revenue or expense.

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

		Changes in Fair Value		Fair Value at June 30, 2011	
	Notional	**Classification**	**Amount**	**Classification**	**Amount**
Governmental activities					
Cash flow hedges:					
Pay-fixed swap	$ 61,100	Deferred outflow	$(2,292)	Liabilities	$ (9,054)
Pay-fixed swap	100,000	Deferred outflow	(4,194)	Liabilities	(16,109)
Pay-fixed swap	162,785	Deferred outflow	(5,983)	Liabilities	(26,919)
Pay-fixed swap	90,000	Deferred outflow	(2,992)	Liabilities	(12,584)
Pay-fixed swap	95,350	Deferred outflow	(3,169)	Liabilities	(13,332)
Pay-fixed swap	130,000	Deferred outflow	(2,446)	Liabilities	(14,649)
Pay-fixed swap	124,320	Deferred outflow	(5,013)	Liabilities	(18,916)
Pay-fixed swap	157,055	Deferred outflow	(6,583)	Liabilities	(20,742)
Total:	$920,610		$(32,672)		$(132,305)
Investment derivatives:					
Basis swap	$ 116,151	Investment earnings	$(2,038)	Asset	$498
Basis swap	77,434	Investment earnings	(1,664)	Liabilities	(876)
Total:	$193,585		$(3,702)		$(378)

The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. At the end of the period, $133.2 million are recorded as Derivative Instrument Liability, $0.5 million as Derivative Instrument, and $132.3 million as Deferred Outflow.

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

Type	Objective	Notional Amount (000's)	Trade Date	Termination Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2000C bonds	$61,100	02/13/2007	03/01/2032	Pay 3.823% Receive 1ML* x 70%	Aa1/AA-
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008A bonds	100,000	08/18/2005	12/01/2030	Pay 5.25% Receive 1ML x 70% + 0.28%	Aa3/A+
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008A bonds	162,785	11/16/2006	12/01/2028	Pay 5.25% Receive 1ML x 70% + 0.28%	Aa1/AA-
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008B bonds	90,000	12/08/2003	03/01/2034	Pay 3.771% Receive 1ML x 70%	Aa3/NR
Pay-fixed interest rate swap	Hedge a portion of changes in cash flows on 2008B bonds	95,350	12/08/2003	03/01/2034	Pay 3.771% Receive 1ML x 70%	Aa3/NR
Pay-fixed interest rate swap	Hedge interest rate risk on 2009A-1 and 2009A-2 bonds	130,000	11/30/2005	03/01/2026	Pay 3.6617% Receive 1ML x 70%	Aa3/A+
Pay-fixed interest rate swap	Hedge interest rate risk on 2009B and 2010A bonds	124,320	02/13/2007	03/01/2035	Pay 3.825% Receive 1ML x 70%	Aa1/AA-
Pay-fixed interest rate swap	Hedge interest rate risk on 2010B bonds	157,055	11/30/2005	03/01/2036	Pay 3.6617% Receive 1ML x 70%	Aa3/A+

* 1ML – One month London Interbank Offered Rate (LIBOR)

Credit Risk

As of June 30, 2011, all hedging derivatives are liabilities and associated credit risk is not considered material. All of CPS' interest rate swap counterparties are currently rated A or higher by Fitch and/or S&P, and A2 or higher by Moody's. CPS manages credit risk by requiring its counterparties to post collateral in certain events. CPS is entitled to collateral from its counterparties if a net position with a counterparty is an asset of $25 million or more and the counterparty is rated below AA by Fitch and/or S&P, or Aa3 by Moody's; CPS is not required to post collateral. CPS enters into derivative agreements with multiple counterparties to limit concentration of credit risk. Currently, CPS has interest rate swaps with five different counterparties and no counterparty accounts for more than 37% of outstanding notional. CPS monitors counterparty credit risk on an ongoing basis.

Interest Rate Risk

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

Basis Risk

With the exception of Series 2008A and Series 2008B indexed bonds (private placements), the variable rate debt hedged by CPS' derivatives are variable rate demand obligation (VRDO) bonds that are remarketed daily or weekly. With the exception of the Series 2008 indexed bonds, CPS is exposed to basis risk because the variable rate receipts from the hedging derivatives are based on a rate or index other than the interest rates CPS pays on the VRDO bonds. CPS is exposed to basis risk to the degree that variable payments on the hedged item are not offset by the variable receipts from the hedging derivative. There is little basis risk on the hedged portion of the 2008 indexed bonds because the hedged variable payments are based on the same index, 1-Month LIBOR, as the variable receipts from the hedging derivative. For the period, the weighted average interest rate on CPS' variable rate debt is 0.25%, Securities Industry and Financial Markets Association (SIFMA) is 0.25%, and 70% of 1-Month LIBOR is 0.18%.

Termination Risk

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

Rollover Risk

Rollover risk is the risk that a hedging derivative instrument associated with a hedgeable item does not extend to the maturity of that hedgeable item. As of June 30, 2011, rollover risk is not considered material.

Foreign Currency Risk

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

Other Investment Derivatives

As of June 30, 2011, CPS had investments with the following maturities (amounts in thousands):

Investment Type	Fair Value	Maturities Less than 1 Year	Maturities 1-5 Years	Maturities 6-10 Years	Maturities More Than 10 Years
Investment derivative instrument	$498	-	$15,783	$19,422	$80,946
Investment derivative instrument	($876)	-	$10,522	$12,948	$53,964

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

Type	Objective	Notional Amount (000's)	Trade Date	Termination Date	Terms	Counterparty Credit Rating
Basis swap	Reduce interest expense and change cash flows on 2005A fixed rate bonds	$116,151	10/05/2005	12/01/2031	Pay SIFMA Receive 1ML x 70% + .524%	Aa3A+
Basis swap	Reduce interest expense and change cash flows on 2005A fixed rate bonds	$77,434	10/05/2005	12/01/2031	Pay SIFMA Receive 1ML x 80.76%	A2/A

NOTE 11. OTHER BENEFITS AND CLAIMS

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

	Balance June 30, 2010	Additions	Payments	Balance June 30, 2011
Accrued sick pay benefits	$ 334,968	$ 187,947	$ (63,092)	$ 459,823
Accrued vacation pay benefits	75,508	2,135	(11,254)	66,389
Accrued workers' compensation claims	103,676	31,841	(25,782)	109,735
Accrued general and automobile claims	5,531	1,286	(1,474)	5,343
Tort liabilities and other claims	2,500	-	(500)	2,000
Total	$ 522,183	$ 223,209	$(102,102)	$ 643,290
Less: Current portion of accrued sick pay benefits				(53,529)
Less: Current portion of accrued vacation pay benefits				(10,660)
Less: Current portion of accrued workers' compensation claims				(27,417)
Less: Current portion of accrued general and automobile claims				(1,226)
Total long-term other benefits and claims				$ 550,458

The following is activity related to workers' compensation claims and general and automobile claims ($000's):

Balance June 30, 2009	Additions	Payments	Balance June 30, 2010	Additions	Payments	Balance June 30, 2011
$100,791	$36,676	$ (28,260)	$109,207	$33,127	$ (27,256)	$115,078

Sick Pay Benefits

CPS provides sick pay benefits for substantially all of its employees. Eligible employees can accumulate a maximum of 320 days. If an employee either reaches age 65; has a minimum of 20 years of service at the time of resignation or retirement, or dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. The CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

Vacation Pay Benefits

For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to 10 years of service; 53 days for those with 11 to 20 years of service; and 66 days for those with more than 20 years of service. Eligible employees are entitled to receive 100% of accumulated vacation days at their current salary rate. These amounts will be liquidated from the General Operating Fund.

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

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

CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of $250,000,000 and Boiler & Machinery Insurance with limits of $100,000,000 with the following deductibles:

Data processing equipment and media	$ 25,000
Mechanical breakdown	$ 50,000
All other losses	$ 500,000

During fiscal years 2011, 2010 and 2009 there were no claims made in excess of the self-insured amount and there has been no significant reduction in insurance coverage over the past three fiscal years.

CPS maintains commercial excess liability insurance with limits of $75,000,000 in excess of a $5,000,000 self-insured retention per loss for claims arising from: General Liability, Automotive Liability, Employers Liability and Wrongful Acts.

As discussed in Note 14, there are pending workers' compensation and tort claims involving the CPS which have arisen out of the ordinary conduct of business. CPS budgets an amount each year in the Workers' and Unemployment Compensation/Tort Immunity Fund for the estimated claims, of which the expenditures are met through an annual tax levy.

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

CPS is self-insured for workers' compensation claims and certain employee health insurance costs (reimbursed to a provider on a cost plus fees basis). A liability of $56 million has been recorded for health insurance costs and is reported as part of accrued payroll and benefits in the General Operating Fund, which includes $34 million for estimated medical claims incurred but not reported as of June 30, 2011. Following is the activity related to medical claims for which CPS is self-insured ($000's):

Balance June 30, 2009	Additions	Payments	Balance June 30, 2010	Additions	Payments	Balance June 30, 2011
$54,040	$347,719	$(346,842)	$54,917	$359,527	$(358,902)	$55,542

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Pension – Certified Teachers and Administrators

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

Article 17 of the Illinois Pension Code governs the retirement, survivor and disability benefits provided by the Pension Fund. Participation in the Pension Fund is mandatory for all members of the teaching force and employees of the Pension Fund. As of June 30, 2010, the most recent report, there were 31,674 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.

Pension legislation (Public Act 96-0889) created a second tier of benefits for teachers who first become participants under the fund on or after January 1, 2011. Under this act, a member is entitled to a pension after attainment of age 67 with at least 10 years of service. However a member can elect to retire at age 62 with at least 10 years of service and receive a retirement annuity reduced by ½ percent for each month that his or her age is under 67. In addition, the annual final average salary may not exceed the social security wage base of $106,800 in 2011 and shall be increased by the lesser of 3% or one-half of percentage change in the Consumer Price Index-U during the preceding 12-month calendar year.

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 2011, as in previous fiscal years, CPS paid a portion (7% — $130.0 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. A portion of grant funds from the Federal government and General Operating Fund revenues provides the funding of the 7% portion. The remaining portion (2%) is withheld from teachers' salaries.

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

Retirement benefit contribution:	
A contribution to increase funded ratio to 90%	$ 138,929
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	26,689
Subtotal	$ 165,618
A contribution from the State of Illinois	10,449
A contribution to Early Retirement Option Plan	2,061
A 20% deficiency payment	259
Total contributions	$ 178,387

For the fiscal year ended June 30, 2011, employee contributions are $167.0 million which is 9% of pensionable salary. Employer contributions for the year are $178.4 million which is approximately 9% of covered payroll.

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

The governmental fund financial statements reflect expenditures on both a functional and budgetary account basis. Teachers' pension expenditures reflected on the budgetary account basis include both CPS' employer share of pension expenditures of $176.1 million and amounts incurred by CPS for a portion of the required employees' pension contribution of $130.0 million, which total $306.1 million. For functional reporting purposes, all teachers' pension expenditures, except that portion funded by the Federal grants, are reflected in the same functional classifications as the teachers' salaries.

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

The CPS' annual pension costs for fiscal years 2011, 2010 and 2009 are as follows ($000's):

	2011	2010	2009
Annual required contribution (ARC)	$ 425,647	$ 355,846	$ 292,146
Interest on net pension obligation (NPO)	157,495	154,391	148,588
Adjustment to annual required contribution	(111,430)	(109,234)	(105,127)
Annual pension cost (APC)	$ 471,712	$ 401,003	$ 335,607
Less: Contributions made	(178,387)	(362,203)	(263,069)
Increase in NPO	$ 293,325	$ 38,800	$ 72,538
Add NPO, beginning of year	1,968,685	1,929,885	1,857,347
NPO, end of year	$ 2,262,010	$ 1,968,685	$ 1,929,885

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	Average of 4% per year
Inflation	3%

At June 30, 2010, 2009 and 2008 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information are as follows ($000's):

	2010	2009	2008
Actuarial value of assets	$ 10,917,417	$ 11,493,256	$ 12,069,417
Less: Actuarial accrued liability (AAL)	(16,290,190)	(15,683,242)	(15,203,741)
AAL unfunded (liability)	$ (5,372,773)	$ (4,189,986)	$ (3,134,324)
Funded ratio	67.0%	73.3%	79.4%
Covered payroll	$ 2,018,147	$ 1,996,194	$ 1,914,559
Unfunded AAL as a percentage of covered payroll	266.2%	209.9%	163.7%

	2011	2010	2009
Annual pension cost	$ 471,712	$ 401,003	$ 335,607
Percentage of annual pension cost contributed	37.8%	90.3%	78.4%
Net pension obligation	$ 2,262,010	$ 1,968,685	$ 1,929,885

In the opinion of the CPS' legal counsel, the unfunded actuarial liability of the Pension Fund is not a liability to be funded by the CPS; however, CPS is required to provide funding in addition to amounts provided from Federal and State sources if the funded ratio drops below 90%. In April 2010, the General Assembly passed bill SB1946 which provides short-term pension relief to CPS. Under this legislation, CPS is required to make pension contributions in the amount of the "normal cost" of benefits beginning in fiscal year 2011 through fiscal year 2013, resulting in significantly lower pension contributions. CPS' pension contribution for fiscal year 2011 was $165.6 million. However, beginning in fiscal year 2014, CPS will be required to make pension contributions to increase the funded ratio to 90%. During fiscal year 2011 CPS did not offer an early retirement incentive program.

Pension – Other Personnel

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

Pension legislation (Public Act 96-0889) was approved in April 2010 and established two distinct classes of membership with different retirement eligibility conditions and benefit provisions. For convenience, the Annuity Fund uses a tier concept to distinguish

these groups: Tier 1 members are participants that became members before January 1, 2011 and Tier 2 members are participants that became members on or after January 1, 2011.

If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest at 3% per annum, subject to certain exceptions.

Tier 1 employees age 55 or more with at least 10 years of service are entitled to receive an annuity. Employees age 60 or more with at least 10 years of service or age 55 with at least 20 years of service or age 50 or more with at least 30 years of service are entitled to receive a minimum formula annuity of 2.4% per year of service times the final average salary. If the employee retires prior to age 60, the annuity shall be reduced by 0.25% for each month the employee is under age 60 if the employee has less than 25 years of service. The annuity is not discounted if the employee is age 50 with at least 30 years of service.

Tier 2 employees age 67 or more with at least 10 years of service are entitled to receive an unreduced annuity benefit or a reduced annuity benefit at age 62 with 10 years of service. The annuity is discounted ½ percent for each full month the employee is under age 67. Final average salary is calculated using salary from the eight highest consecutive years within the last 10 years of service prior to retirement. Pensionable salary is limited to $106,800 in 2011.

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

Both Tier 1 and Tier 2 employees are required by Article 8, Chapter 40 of the Illinois Compiled Statutes to contribute a percentage of their salary (8.5%). The pensionable salary for Tier 1 members has no limitation while Tier 2 employees' pensionable salary is limited to $106,800 in 2011. In fiscal year 2011, as in previous fiscal years, CPS agreed to pay a portion (7% — $38.5 million) of the required employees' contribution for most employees. CPS also receives a portion of the cost of providing pension benefits from grants by the Federal government for career service employees paid from certain Federally-funded programs. The amount reflected as career service pension expenditures in the accompanying governmental fund financial statements is $102.2 million, $38.5 million of this amount represents the required employees' contribution paid by CPS on behalf of its employees; $53.5 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining $10.2 million is funded under Federally-funded programs. The portion funded by the City of Chicago and Federal Government is also reflected as revenue in the General Operating Fund.

Career service pension expense in the government-wide financial statements for fiscal year 2011 is $102.2 million. For fiscal years 2010 and 2009, the career service pension expense was $96.9 million and $93.8 million, respectively.

As of December 31, 2010, the date of the latest available report, the Annuity Fund had net assets of approximately $5.4 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately $6.0 billion. CPS employs approximately 16,061 of the 30,726 active participants in the Annuity Fund. CPS, in the opinion of its legal counsel, has no duty to contribute any sum to the Annuity Fund.

Other Postemployment Benefits (OPEB)

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

The Pension Fund administers a health insurance program that includes two external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Pension Fund, provided the Pension Fund is the recipient's final pension system prior to retirement. The purpose of this program is to help defray the retired member's premium cost for health insurance. The member is responsible for paying the cost of the insurance and may purchase insurance from the Pension Fund's providers or other outside providers. Each year, the Board of Trustees of the Pension Fund establishes a rebate percentage that is used to defray a portion of the cost of the insurance. The rebate percentage was 70% of the individual member's cost for fiscal years 2010 and 2009. In accordance with Illinois Compiled Statutes (ILCS) Article 40 Chapter 5 Article 17 Section 142.1, the total health insurance benefits provided in any one year may not

exceed $65 million plus any previous year amounts authorized but not yet expended. The statutory threshold, however, does not fall under the definition of a funding cap as set forth in GASBS 45. The Pension Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy. As of June 30, 2010, the most recent available data, there were 31,674 active members in the Chicago Teachers' Pension Fund Retiree Health Insurance Program. This provision reduces the net assets of the "Pension Fund. Although CPS does not contribute directly to retirees' health care premiums, the impact does require increased contributions by CPS to build assets to the 90% requirement.

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

The CPS' annual OPEB costs for fiscal year 2011, 2010 and 2009 are as follows ($000's):

	2011	2010	2009
Annual required contribution	$ 205,210	$ 186,232	$ 171,880
Interest on net OPEB obligation	42,722	34,049	26,091
Adjustment to annual required contribution	(34,584)	(27,563)	(21,121)
Annual OPEB cost	$ 213,348	$ 192,718	$ 176,850
Less: Contributions made by the State of Illinois	32,522	--	--
Increase in OPEB	$ 180,826	$ 192,718	$ 176,850
Add OPEB, beginning of year	949,371	756,653	579,803
OPEB, end of year	$ 1,130,197	$ 949,371	$ 756,653

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent, open
Remaining amortization period	30 years
Actuarial assumptions:	
Discount rate	4.5%
Medical trend rate	8%
Inflation	3%

At June 30, 2010, 2009 and 2008 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows ($000's):

	2010	2009	2008
Actuarial value of assets	$ 34,858	$ 49,692	$ 44,989
Less: Actuarial accrued liability (AAL)	(2,821,698)	(2,670,283)	(2,407,122)
AAL unfunded (liability)	$ (2,786,840)	$ (2,620,591)	$ (2,362,133)
Funded ratio	1.2%	1.9%	1.9%
Covered payroll	$ 2,018,147	$ 1,996,194	$ 1,914,559
Unfunded AAL as a percentage of covered payroll	138.1%	131.3%	123.4%

	2010	2009	2008
Annual OPEB cost	$ 213,348	$ 192,718	$ 176,850
Percentage of annual pension cost contributed	15.2%	0%	0%
Net OPEB obligation	$ 1,130,197	$ 949,371	$ 756,653

Other Personnel
Actuarial studies on other personnel determined that no OPEB liability exists for those employees as of June 30, 2011.

NOTE 13. FUND BALANCE CLASSIFICATIONS AND NET ASSET RESTRICTIONS

a. Fund Balance Classifications

On the fund financial statements, the Nonspendable Fund Balance consists of the following ($000's):

Inventory	$ 1,543
Donation (principal required to be maintained intact)	428
Total	$ 1,971

At the end of the fiscal year the total encumbrances for the general operating fund amounted to $113.4 million and $353.7 million for the capital projects fund.

b. Net Assets Restrictions

The government-wide statement of net assets reports $630.5 million of restricted net assets, of which $469.4 is restricted for Debt service, $7.6 million is restricted for Donations and $153.5 is restricted by Enabling legislation.

NOTE 14. LITIGATION AND CONTINGENCIES

a. State and Federal Aid Receipts

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management any potential adjustments to the Federal or State aid recorded by CPS through June 30, 2011, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2011.

b. Pollution remediation obligation.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. In fiscal year 2011 CPS recorded a pollution remediation obligation of $10.5 million as current year expense in the Statement of Activities.

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

c. Other Litigation and Claims

There are numerous other claims and pending legal actions involving CPS, including actions concerned with civil rights of employees, workers' compensation, torts, property tax objections, and other matters, arising out of CPS' ordinary conduct of its business. Certain actions involve alleged damages in substantial amounts. The amounts of liability, if any, on these claims as of June 30, 2011, in excess of related insurance coverage with respect to certain claims, are not determinable at this time. In the opinion of CPS management and legal counsel, the final resolution of these claims and legal actions will not be material to CPS' financial statements as of June 30, 2011.

NOTE 15. SUBSEQUENT EVENTS

Unlimited Tax General Obligation (Series 2011A)

In November 2011, CPS issued $402.4 million in Unlimited Tax General Obligation Bonds (Series 2011A) at a net premium of $1.2 million. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. The debt service will be paid from General State Aid revenues.

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APPENDIX B

Pension Fund Actuarial Valuation for Fiscal Year 2011

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PUBLIC SCHOOL TEACHERS' PENSION AND RETIREMENT FUND OF CHICAGO

ACTUARIAL VALUATION AS OF JUNE 30, 2011

October 27, 2011

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

Re: Actuarial Valuation as of June 30, 2011

Dear Board Members:

I am pleased to submit our actuarial report on the financial position and funding requirements of the Public School Teachers' Pension and Retirement Fund of Chicago based on the actuarial valuation as of June 30, 2011.

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

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

Respectfully submitted,

Sandor Goldstein, F.S.A.
Consulting Actuary

A. PURPOSE AND SUMMARY

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

As has been done in past years, we have also performed a combined actuarial valuation as of June 30, 2011 of the pension and retiree health insurance benefits provided under the fund to measure the overall funded status and contribution requirements of the Fund. We believe that such a combined valuation is required under Section 17-129 of the Illinois Pension Code which specifies the funding requirements for the fund. The following funding provision is contained in Section 17-129 of the Illinois Pension Code: "For fiscal years 2014 through 2059, the minimum contribution to the Fund to be made by the Board of Education in each fiscal year shall be an amount to be determined by the Fund to be sufficient to bring the total assets of the Fund up to 90% of the total actuarial liabilities of the Fund by the end of fiscal year 2059…..". This report is intended to present the results of the combined valuation. The results of the combined valuation are summarized below:

1. Total Actuarial Liability	$ 16,940,626,445
2. Actuarial Value of Assets	10,140,639,494
3. Unfunded Actuarial Liability	6,799,986,951
4. Funded Ratio	59.9%
5. Employer's Normal Cost for FY 12 as a percent of payroll	9.02%
6. Board of Education Contribution Requirement For FY 13 Based on Public Act 96-0889	$ 196,000,000

B. DATA USED FOR THE VALUATION

Participant Data. The participant data required to carry out the valuation was supplied by the Fund. The membership of the Fund as of June 30, 2011, on which the valuation was based, is summarized in Exhibit 1. It can be seen that there were 30,133 active contributors, 25,199 pensioners, and 2,757 vested terminated members included in the valuation. The total active payroll as of June 30, 2011 was $2,090,131,858.

Exhibit 1

Summary of Membership Data

1. Number of Members	
(a) Active Members	
(i) Vested Employees	21,027
(ii) Non-vested Employees	9,106
(iii) Total Active Members	30,133
(b) Members Receiving	
(i) Retirement Pensions	21,977
(ii) Disability Pensions	465
(iii) Survivor Pensions	2,757
(iv) Total Pensioners	25,199
(c) Vested Terminated Members	4,253
(d) Total	59,585
2. Total Annual Salaries	$ 2,090,131,858
(a) Average Salary	69,364
3. Total Accumulated Contributions of Active Members	$ 1,503,911,310
4. Annual Benefit Payments Currently Being Made	
(a) Retirement Pensions	$ 998,884,026
(b) Disability Pensions	14,101,691
(c) Survivor Pensions	46,887,342
(d) Total Pensions	$ 1,047,873,059

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

EXHIBIT 2

AGE AND SERVICE DISTRIBUTION OF ACTIVE MEMBERS

Year 2011

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

				Year of Service						
Age	**<1**	**1 to 4**	**5 to 9**	**10 to 14**	**15 to 19**	**20 to 24**	**25 to 29**	**30 to 34**	**35+**	**Total**
under 25	260	546								806
	$18,464	$45,249								$36,608
25-29	480	3,011	794	1						4,286
	$20,634	$50,395	$62,397	$77,287						$49,291
30-34	234	1,747	2,463	451						4,895
	$22,910	$52,724	$66,818	$79,118						$60,822
35-39	133	833	1,433	1,416	289					4,104
	$23,133	$52,834	$67,950	$82,018	$90,635					$69,881
40-44	99	533	795	1,015	1,003	163				3,608
	$20,256	$53,017	$67,673	$81,604	$89,491	$95,607				$75,453
45-49	70	312	532	568	707	485	92			2,766
	$16,924	$48,577	$69,457	$79,300	$86,286	$90,269	$95,520			$76,611
50-54	46	279	445	529	642	470	467	127	1	3,006
	$14,738	$46,007	$65,065	$78,324	$85,058	$89,235	$91,529	$95,422	$85,750	$78,309
55-59	54	221	355	416	580	550	462	531	203	3,372
	$14,384	$41,943	$60,636	$78,096	$84,169	$87,881	$92,645	$98,424	$102,772	$82,189
60-64	37	140	215	284	433	434	302	276	398	2,519
	$10,043	$34,248	$53,259	$72,993	$84,739	$89,334	$91,173	$96,049	$100,082	$82,051
65-69	9	36	57	60	116	95	80	60	99	612
	$5,236	$25,172	$62,421	$74,592	$85,145	$93,806	$91,427	$91,219	$101,605	$82,715
70+	6	22	17	15	19	26	10	11	33	159
	$7,440	$11,023	$29,109	$54,525	$75,387	$94,033	$88,520	$95,391	$104,550	$68,313
Number	1,428	7,680	7,106	4,755	3,789	2,223	1,413	1,005	734	30,133
Salary	$19,783	$50,003	$65,891	$79,855	$86,668	$89,864	$92,051	$96,929	$101,213	$69,364

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

The asset values used for the valuation were based on the asset information contained in the audited financial statements for the year ending June 30, 2011 prepared by the Fund. The actuarial value of assets was determined by smoothing unexpected gains or losses over a period of 4 years. The resulting actuarial value of assets is $10,140,639,494. The development of this actuarial value of assets is outlined in Exhibit 3. As of June 30, 2011, the market value of the assets of the fund amounted to $10,344,086,736.

Exhibit 3

Actuarial Value of Assets

A. Development of Investment Gain/(Loss) For Year Ending June 30, 2011

1.	Actuarial Value of Assets as of 6/30/10	$ 10,952,274,725
2.	Employer Contributions and Miscellaneous Income	218,983,962
3.	Employee Contributions	185,882,636
4.	Expenses	1,166,400,567
5.	Expected Investment Income	846,306,631
6.	Actual Investment Income	2,123,292,641
7.	Investment Gain/(Loss) (6 – 5)	$ 1,276,986,010

B. Development of Actuarial Value of Assets

8.	Expected Value of Assets as of June 30, 2011 (1 + 2 + 3 – 4 + 5)	$ 11,037,047,387
9.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2008	(414,651,992)
10.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2009	(852,439,981)
11.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2010	51,437,577
12.	One-fourth of Investment Gain/(Loss) For Year Ending June 30, 2011	319,246,503
13.	Actuarial Value of Assets as of June 30, 2011 (8 + 9 + 10 + 11 + 12)	$ 10,140,639,494

C. FUND PROVISIONS

Our valuation was based on the provisions of the Fund in effect as of June 30, 2011 as provided in

A summary of the principal provisions of the system is provided in Appendix 2.

D. ACTUARIAL ASSUMPTIONS AND COST METHOD

The same actuarial assumptions were used for the June 30, 2011 actuarial valuation as were used for the June 30, 2010 valuation. The actuarial assumptions used for the June 30, 2011 valuation are outlined in Appendix 1. In our opinion, the actuarial assumptions used for the valuation are reasonable, in the aggregate, taking into account Fund experience and future expectations and represent our best estimate of anticipated experience.

The projected unit credit actuarial cost method was used for the June 30, 2011 actuarial valuation. This is the same actuarial cost method that was used for the June 30, 2010 valuation.

E. ACTUARIAL LIABILITY

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

As of June 30, 2011, the total actuarial liability is $16,940,626,445, the actuarial value of assets is $10,140,639,494, and the unfunded liability is $6,799,986,951. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 59.9%.

Exhibit 4

Actuarial Liability as of June 30, 2011

1. Actuarial Liability for Active Members

(a) Basic Retirement Annuity	$ 3,306,698,997
(b) Post Retirement Increase	899,008,877
(c) Lump Sum Death Benefit	9,809,079
(d) Survivor's Pension	322,620,559
(e) Disability Pension	94,232,942
(f) Withdrawal Benefit	269,394,051
(g) Total	$ 4,901,764,605

2. Actuarial Liability Members Receiving Benefits

(a) Retirement Pensions	$ 11,232,632,560
(b) Survivor Pensions	420,495,560
(c) Disability Pensions	138,410,357
(d) Total	$ 11,791,538,477

3. Actuarial Liability for Inactive Members	247,323,463
4. Total Actuarial Liability	$ 16,940,626,445
5. Actuarial Value of Assets	10,140,639,494
6. Unfunded Actuarial Liability	$ 6,799,986,951
7. Funded Ratio	59.9%

F. EMPLOYER'S NORMAL COST

The employer's share of the normal cost for the year beginning July 1, 2011 is developed in Exhibit 5. The total normal cost is $364,247,550, employee contributions are estimated to be $175,805,483, resulting in the employer's share of the normal cost of $188,442,067.

Based on a payroll of $2,090,131,858 as of June 30, 2011, the employer's share of the normal cost can be expressed as 9.02% of payroll.

Exhibit 5

Employer's Normal Cost For Year Beginning July 1, 2011

	Dollar Amount	Percent Of Payroll
1. Basic Retirement Pension	$183,648,711	8.79%
2. Post Retirement Increases	49,583,942	2.37
3. Lump Sum Death Benefits	674,199	.03
4. Survivor's Pension	19,490,522	.93
5. Disability Benefits	7,517,046	.36
6. Withdrawal Benefits	28,899,724	1.39
7. Health Insurance Reimbursement	65,000,000	3.11
8. Administrative Expenses	9,433,406	.45
9. Total Normal Cost	$364,247,550	17.43%
10. Employee Contributions	175,805,483	8.41
11. Employer's Share of Normal Cost	$188,442,067	9.02%

Note. The above figures are based on a total active payroll of $2,090,131,858 as of June 30, 2011.

G. EMPLOYER CONTRIBUTION REQUIREMENTS FOR FISCAL YEAR 2013

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

Based on the June 30, 2011 actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio, amounts to 59.9%. Therefore, additional State contributions will be required for Fiscal Year 2013. The total payroll for FY 2013 is projected to be $2,149,987,987. This total payroll includes employee contributions of 7% of salary paid by the Board of Education. Excluding these employee contributions from payroll results in an adjusted projected payroll of $2,009,334,567. Based on this adjusted projected payroll for Fiscal Year 2013, we have determined the additional State contributions under Section 17-127 of the Pension Code to be $10,931,000.

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

As the funded ratio as of June 30, 2011 is 59.9%, additional Board of Education contributions will be required for Fiscal Year 2010. Based on adjusted projected payroll of $2,009,334,567 for Fiscal Year 2013, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be $11,654,000.

Board of Education Required Contribution. Senate Bill 1946, which was signed into law on April 14, 2010 as Public Act 96-0889, revised the funding provisions that had previously been in effect. Public Act 96-0889 specifies the Board of Education's required contribution for Fiscal Years 2011, 2012, and 2013 as a fixed dollar amount. The amount specified for Fiscal Year 2013 is $196,000,000. Therefore, pursuant to Public Act 96-0889, the Board of Education's required contribution for Fiscal Year 2013 is $196,000,000.

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

H. RECONCILIATION OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY

The net actuarial experience during the period July 1, 2010 to June 30, 2011 resulted in an increase in the Fund's unfunded actuarial liability of $1,432,518,011. This increase in unfunded actuarial liability is a result of several kinds of gains and losses. The financial effect of the most significant gains and losses is illustrated in Exhibit 6.

The employer contribution requirement for the year of normal cost plus interest on the unfunded actuarial liability amounted to $602,502,139. The total actual employer contribution for the year amounted to $218,928,656. Thus, the employer contribution for the year fell short of the funding requirement of normal cost plus interest on the unfunded liability by $383,573,484. Had all other aspects of the Fund's experience been in line with the actuarial assumptions, the unfunded liability would have increased by this amount.

The Fund's actual rate of return for the year was approximately 24.7%. With the 4-year smoothing of unexpected gains and losses, 25% of the losses incurred in FY 2008 and FY 2009 were recognized in the current year. In addition, 25% of the gain in the current year and 25% of the gain in FY 2010 were recognized. Therefore, the rate of return taken into account in determining the actuarial value of assets worked out to -.5%. This resulted in an increase in the unfunded liability of $896,407,893. Salary increases lower than expected resulted in a decrease in the unfunded liability of $25,480,115.

The various other aspects of the Fund's experience resulted in an increase in the unfunded liability of $178,016,749. The aggregate financial experience of the Fund resulted in an increase in the unfunded liability of $1,432,518,011.

Exhibit 6

Reconciliation of Change in Unfunded Actuarial Liability Over the Period July 1, 2010 to June 30, 2011

1.	Unfunded Actuarial Liability as of 07/01/10	$ 5,367,468,940
2.	Employer Contribution Requirement of Normal Cost Plus Interest on Unfunded Liability for Period 07/01/10 to 06/30/11	602,502,139
3.	Actual Employer Contribution for the Year	218,928,655
4.	Increase in Unfunded Liability Due to Employer Contribution Being Less Than Normal Cost Plus Interest on Unfunded Liability (2 – 3)	$ 383,573,484
5.	Increase in Unfunded Liability Due to Investment Return Lower Than Assumed	896,407,893
6.	Decrease in Unfunded Liability Due to Salary Increases Lower Than Assumed	25,480,115
7.	Increase in Unfunded Liability Due to Other Sources	178,016,749
8.	Net Increase in Unfunded Liability for the Year (4 + 5 - 6 + 7)	$ 1,432,518,011
9.	Unfunded Actuarial Liability as of June 30, 2011 (1 + 8)	$ 6,799,986,951

I. PROJECTION OF CONTRIBUTIONS, LIABILITIES, AND ASSETS

Based on the results of the June 30, 2011 actuarial valuation, we have projected valuation results for a 48-year period commencing with Fiscal Year 2012. We have based Board of Education contributions on the contribution requirements on the funding provision of Public Act 96-0889.

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

In order to determine projected contributions, liabilities, and assets, certain calculations needed to be made that are not normally required in a regular actuarial valuation. Benefit payout requirements, actuarial liabilities, and payroll were estimated over the 48-year period from 2012 through 2059 by projecting the membership of the Fund over the 48-year period, taking into account the impact of new entrants into the Fund over the 48-year period.

To make the required projections, assumptions needed to be made regarding the age and salary distribution of new entrants as well as the size of the active membership of the Fund. The assumptions regarding the profile of new entrants to the Fund were based on the recent experience of the Fund with regard to new entrants. The size of the active membership of the Fund was assumed to remain constant over the 48-year projection period. The results of our projections are shown in Exhibit 7.

J. <u>CERTIFICATION</u>

This actuarial report has been prepared in accordance with generally accepted actuarial principles and practices and to the best of our knowledge, fairly represents the financial condition of the Public Teachers' Pension and Retirement Fund of Chicago as of June 30, 2011.

Respectfully submitted,

Sandor Goldstein, F.S.A.
Consulting Actuary

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

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

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

Fiscal Year	Employee Contri-butions	Required Employer Contri-butions	Additional State Contri-bution	Additional BOE Contri-bution	Required Board of Education Contri-butions [1]	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2012	$175.8	$214.7	$11.0	$11.7	$192.0	$17,417.0	$9,605.6	$7,811.4	55.2%
2013	180.8	218.6	10.9	11.7	196.0	17,905.4	9,854.1	8,051.2	55.0%
2014	186.5	557.5	11.3	12.0	534.2	18,406.7	10,393.1	8,013.7	56.5%
2015	192.4	575.1	11.6	12.4	551.1	18,921.9	10,643.6	8,278.3	56.3%
2016	198.4	593.3	12.0	12.8	568.5	19,452.1	10,902.6	8,549.6	56.0%
2017	204.6	611.9	12.4	13.2	586.3	19,996.8	11,169.4	8,827.5	55.9%
2018	211.0	630.8	12.8	13.6	604.5	20,556.7	11,444.7	9,112.0	55.7%
2019	217.5	650.5	13.2	14.0	623.4	21,133.8	11,730.5	9,403.3	55.5%
2020	224.3	671.1	13.6	14.5	643.1	21,730.3	12,029.2	9,701.1	55.4%
2021	231.4	692.5	14.0	14.9	663.6	22,349.4	12,344.1	10,005.4	55.2%
2022	238.6	714.3	14.4	15.4	684.5	22,991.8	12,675.9	10,315.9	55.1%
2023	245.9	736.9	14.9	15.9	706.1	23,658.8	13,026.5	10,632.3	55.1%
2024	253.4	760.2	15.4	16.4	728.4	24,351.4	13,397.7	10,953.7	55.0%
2025	260.9	783.6	15.8	16.9	750.9	25,069.6	13,789.6	11,280.0	55.0%
2026	268.4	807.5	16.3	17.4	773.7	25,812.9	14,202.7	11,610.2	55.0%
2027	276.2	832.5	16.8	17.9	797.8	26,583.4	14,640.3	11,943.1	55.1%
2028	284.0	857.9	17.3	18.5	822.1	27,379.4	15,102.1	12,277.4	55.2%
2029	291.8	884.0	17.9	19.1	847.0	28,199.8	15,588.3	12,611.4	55.3%
2030	299.4	910.2	18.4	19.6	872.2	29,044.1	16,099.7	12,944.4	55.4%
2031	307.1	937.2	18.9	20.2	898.1	29,911.0	16,636.6	13,274.4	55.6%
2032	314.7	965.1	19.5	20.8	924.8	30,797.9	17,198.1	13,599.8	55.8%
2033	322.1	993.3	20.1	21.4	951.8	31,701.1	17,782.7	13,918.4	56.1%
2034	329.3	1,021.9	20.7	22.0	979.3	32,615.7	18,388.1	14,227.6	56.4%
2035	336.3	1,051.0	21.2	22.7	1,007.1	33,537.0	19,012.0	14,525.0	56.7%

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

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

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

Fiscal Year	Employee Contri-butions	Required Employer Contri-butions	Additional State Contri-bution	Additional BOE Contri-bution	Required[1] Board of Education Contri-butions	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2036	342.8	1,080.5	21.8	23.3	1,035.4	34,458.0	19,650.8	14,807.3	57.0%
2037	349.0	1,110.4	22.4	23.9	1,064.0	35,371.6	20,300.4	15,071.1	57.4%
2038	354.6	1,140.6	23.1	24.6	1,092.9	36,267.7	20,955.0	15,312.7	57.8%
2039	359.9	1,171.5	23.7	25.2	1,122.6	37,138.1	21,610.1	15,528.0	58.2%
2040	364.9	1,203.3	24.3	25.9	1,153.0	37,971.5	22,259.5	15,712.0	58.6%
2041	369.4	1,235.9	25.0	26.6	1,184.2	38,757.6	22,897.8	15,859.8	59.1%
2042	373.7	1,269.8	25.7	27.4	1,216.8	39,488.2	23,522.0	15,966.2	59.6%
2043	377.9	1,305.4	26.4	28.1	1,250.9	40,152.5	24,127.6	16,024.9	60.1%
2044	382.0	1,342.8	27.1	28.9	1,286.7	40,743.9	24,714.0	16,029.9	60.7%
2045	386.3	1,383.3	28.0	29.8	1,325.5	41,272.7	25,294.2	15,978.5	61.3%
2046	391.6	1,428.8	28.9	30.8	1,369.1	41,749.3	25,884.6	15,864.8	62.0%
2047	397.6	1,478.3	29.9	31.9	1,416.6	42,183.7	26,500.9	15,682.9	62.8%
2048	404.3	1,531.5	31.0	33.0	1,467.5	42,574.5	27,149.8	15,424.6	63.8%
2049	411.6	1,588.0	32.1	34.2	1,521.7	42,925.1	27,843.3	15,081.8	64.9%
2050	419.6	1,648.2	33.3	35.5	1,579.4	43,241.2	28,595.9	14,645.3	66.1%
2051	428.0	1,711.4	34.6	36.9	1,640.0	43,527.8	29,422.4	14,105.3	67.6%
2052	436.7	1,778.0	35.9	38.3	1,703.7	43,790.1	30,338.9	13,451.3	69.3%
2053	445.5	1,847.9	37.4	39.8	1,770.8	44,023.0	31,352.6	12,670.4	71.2%
2054	454.9	1,921.4	38.8	41.4	1,841.2	44,227.6	32,478.4	11,749.1	73.4%
2055	464.4	1,998.3	40.4	43.1	1,914.8	44,406.0	33,732.8	10,673.3	76.0%
2056	474.0	2,078.5	42.0	44.8	1,991.7	44,561.0	35,133.6	9,427.5	78.8%
2057	483.8	2,162.5	43.7	46.6	2,072.2	44,696.4	36,701.9	7,994.5	82.1%
2058	493.7	2,250.0	45.5	48.5	2,156.1	44,816.0	38,459.8	6,356.2	85.8%
2059	503.8	2,341.4	47.3	50.5	2,243.6	44,925.3	40,432.8	4,492.5	90.0%

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

Appendix 1

Summary of Actuarial Assumptions and Actuarial Cost Method

Actuarial Assumptions

The actuarial assumptions used for the June 30, 2011 valuation are summarized below. The assumptions were adopted as of June 30, 2008.

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

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

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

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

2. Employees With 5 to 10 Years of Service

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

3. Employees With 10 or More Years of Service

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

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

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

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

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

1. Employees With Less Than 33 Years of Service

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

2. Employees With 33 or More Years of Service

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

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

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

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

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

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

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

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

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

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

Actuarial Cost Method.

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

Appendix 2

Summary of Principal Provisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix 3

Glossary of Terms used in Report

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

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

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

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

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

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

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

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

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

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

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

APPENDIX C

Summary of Certain Provisions of the Amended and Restated Indenture

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

DEFINITIONS OF CERTAIN TERMS

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

"Additional Bonds" means any Alternate Bonds issued by the Board in the future in accordance with the provisions of the Act on a parity with and sharing ratably and equally in all or any portion of the Pledged State Aid Revenues with the Bonds, the Commission Obligations and the Series 2000A Bonds, as authorized by Section 8.4(B) of the Indenture.

"Adjustment Date" means (a) the Date of Issuance, (b) any date which is the first day of an Adjustment Period designated in the manner set forth in Section 4.1 of the Indenture, (c) any Substitute Adjustment Date designated in the manner set forth in Section 4.2 of the Indenture, and (d) any proposed Fixed Rate Conversion Date designated in the manner set forth in Section 4.3 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.

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

"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, and (ii) after the Fixed Rate Conversion Date with respect to a particular Bond, $5,000 and any integral multiple thereof.

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

"BMA Municipal Index" means the "SIFMA Municipal Swap Index"™ (such index previously known as the "Bond Market Association/PSA Municipal Swap Index" ™) based upon the weekly interest rate resets of tax exempt variable rate issues included in a database maintained by Municipal Market Data which meet specified criteria established by the Bond Market Association; provided, however, that if such index is no longer produced by Municipal Market Data, Inc. or its successor, then "BMA Municipal Index" means such other reasonably comparable index selected by the Board, with Credit Provider Approval (which approval shall not be unreasonably withheld).

"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 Payment Account" means the Bond Payment Account established in Section 5.3 of the Indenture.

"Bond Purchase Date" has the meaning assigned to such term m the Credit Agreement.

"Bond Purchase Fund" means the trust fund so designated which is created and established pursuant to Section 5.5 of the Indenture.

"Bond Sale Date" has the meaning assigned to such term in the Credit 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.

"Bonds" means the $101,000,000 original aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B, of the Board issued under this Indenture and any Bonds issued hereunder in substitution or replacement therefore, and includes any Credit Provider Bonds from time to time Outstanding.

"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 principal United States office of the Credit Provider at which drawings under the Credit Facility are to be honored or claims under the Credit Facility are to be made is located, (c) 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 and (d) 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.

"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.

"Commission Obligations" means the payments required to be made by the Board pursuant to the Lease in the original aggregate principal amount of $316,255,000, with interest payable from time to time as set forth in the Lease.

"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.

"Credit Agreement" means the 2011 Credit Agreement and any Substitute Credit Agreement.

"Credit Agreement Default" means each "default" or "event of default," if any, under a Credit Facility, the consequence of notice of which is that the Bonds shall be subject to mandatory tender pursuant to Section 3.2 of the Indenture.

"Credit Facility" means the obligation of the Credit Provider to provide funds for the purpose of paying the principal of and interest on the Bonds (other than Credit Facility Bonds) when due and purchasing Tendered Bonds, which Credit Facility may be in the form of a letter of credit, bond insurance policy or other similar credit agreement and includes (i) the Credit Facility provided pursuant to the 2011 Credit Agreement and (ii) any Substitute Credit Facility that may be delivered pursuant to Section 6.1(C) hereof.

"Credit Facility Cancellation Date" has the meaning attributed to it in Section 6.2(B) of the Indenture.

"Credit Provider" means the 2011 Credit Provider for the period during which the 2011 Credit Facility and 2011 Credit Agreement are in effect and thereafter shall mean the Substitute Credit Provider then obligated under the Substitute Credit Facility and Substitute Credit Agreement at the time in effect.

"Credit Provider Approval" means the written approval of the Credit Provider if such approval is required pursuant to the then-applicable Credit Agreement.

"Credit Provider Bonds" means Tendered Bonds purchased with moneys drawn under the Credit Facility pursuant to Section 3.8(C) of the Indenture, which are owned by or pledged to the Credit Provider or its permitted assigns in accordance with the Credit 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 Credit Provider Bonds pursuant to the Credit Agreement.

"Credit Provider Obligations" means the Board's obligations under the Credit Agreement.

"Credit Provider Rate" means with respect to any Credit Provider 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 Credit Agreement then in effect pursuant to which such Credit Provider Bond was purchased. Notwithstanding the foregoing, at no time shall the Credit Provider Rate be higher than the Maximum Interest Rate.

"Credit Provider Reimbursement Obligations" means the Board's obligations to reimburse the Credit Provider for drawings on the Credit Facility in accordance with the terms of the Credit Agreement to pay the principal of, interest on and purchase price of Tendered Bonds (whether upon redemption, at maturity or otherwise), together with accrued interest thereon under the terms of the Credit Agreement.

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

"Credit Substitution Date" means the day on which a Substitute Credit Facility becomes effective.

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

"Demand Date" means, with respect to any Bond during a Daily Mode or 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 in the event of a Weekly Mode shall be not less than seven calendar days after the date such notice is received.

"Deposit Date" means February 15 of each year beginning February 15, 2012 or such earlier date as may be necessary to permit the Board to lawfully make the abatement of taxes described in Sections 5.4(A) and 8.6(B) of the Indenture.

"*Designated Official*" means (a) the President of the Board, (b) the Chief Financial Officer of the Board or (c) 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 Credit Provider Bonds at the Credit Provider Rate up to but excluding the Bond Sale Date, less (b) the interest accrued on such Credit Provider Bonds at the Credit Provider Variable Rate received by the Credit Provider from the purchaser or purchasers of such Credit Provider 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.

"Eligible Account" means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has an S&P short-term debt rating of at least 'A-2' (or, if no short-term debt rating, a long-term debt rating of 'BBB+'); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

"Event of Default" means any event so designated and specified in Section 9.1 of the Indenture.

"Failure to Deposit" means any failure to make the deposits required by Section 4.6 of the Indenture by the time specified therein.

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

"Financing Documents" means this Indenture, the Remarketing Agreement, the Credit Agreement and the Credit Facility.

"Fitch" means Fitch, Inc., 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 Section 4.3 of 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 Sections 2.2(E) and 4.3 of 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, with Credit Provider Approval, any portion of the Bonds to a Fixed Rate pursuant to Sections 2.2 and 4.3 of the Indenture.

"Immediate Notice" means notice by telephone, telex or telecopier or by facsimile transmission or other similar electronic means of communication, not including e-mail transmission, proving evidence of transmission 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, telecopier, facsimile or other similar electronic address of an addressee, Immediate Notice shall mean written notice by first class mail, postage prepaid.

"Government Obligations" means (i) any direct obligations of, or obligations the principal of and interest on 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.

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

"*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.

"Initial Board Funds" has the meaning set forth in Section 2.11 of the Indenture.

"2011 Credit Agreement" means the Reimbursement Agreement, dated as of December 1, 2011, among the Board, the Trustee and the 2011 Credit Provider, as it may be supplemented and amended from time to time.

"2011 Credit Facility" means the Irrevocable Transferrable Direct Pay Letter of Credit dated December 29, 2011 issued by the 2011 Credit Provider to the Trustee.

"2011 Credit Provider" means Wells Fargo Bank, National Association, and its successors and assigns, as provider of the 2011 Credit Facility under the 2011 Credit Agreement.

"Initial Interest Payment Date" means October 2, 2000.

"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.

"Interest Coverage Rate" means the rate used in the Credit 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, initially 15 percent per annum for Bonds in the Weekly Mode.

"Interest Deposit Sub-Account" means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established in Section 5.3 of the Indenture.

"Interest Mode" means a period of time relating to the frequency with which the interest rate on the Bonds is determined pursuant to Sections 2.1 and 2.2 of the Indenture. An Interest Mode may be a Weekly Mode, a Flexible Mode or a Fixed Mode.

"Interest Payment Date" means the Initial Interest Payment Date and, thereafter, (a) for each Bond, each Adjustment Date (including, without limitation, a proposed Fixed Rate Conversion Date) therefore, (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 therefore, (d) for any Bond in a Fixed Mode, each September 1 and March 1, commencing as provided in Section 4.3 of the Indenture, (e) for any Credit Provider Bond, such dates as are specified in the Credit Agreement, and (f) 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 Credit Provider Bonds under (e), 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 m the Bond Payment Account established in Section 5.3 of the Indenture.

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

"Investment Securities" means any of the following securities authorized (i) by law and the Investment Policy and (ii) the Credit Agreement, as permitted investments of Board funds at the time of purchase thereof:

(i) Government Obligations;

(ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation

- Farmers Home Administration
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

(iii) Senior debt obligations issued by the Federal National Mortgage Association 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 "A-1+" by S&P and "P-1" by Moody's and which matures not more than 180 days after the date of purchase;

(vi) Investments in a money market fund which at the time of purchase is rated "AAAm" or "AAAm-G" or better by S&P, including those for which the Trustee or an affiliate performs services for a fee, whether as custodian, transfer agent, investment advisor or otherwise;

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

(viii) Pre-refunded Municipal Obligations;

(ix) Any Forward Supply Contract; and

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

"Lease" means the Lease Agreement (Series C of 1999), dated as of September 1, 1999 between the Public Building Commission of Chicago, Cook County, Illinois and the Board, which was executed and delivered by the Board as an Alternate Bond for the purpose of financing costs of the Project.

"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.

"Maturity Date" means March 1, 2032.

"Maximum Interest Rate" means, with respect to any of the Bonds at any time, the lesser of (i) the maximum rate permitted from time to time pursuant to applicable law, including the Bond

Authorization Act of the State, as amended, (ii) while the Bonds are in a Short Mode, the applicable Interest Coverage Rate or (iii) 15%.

"Moody's" means Moody's Investors Service, Inc., 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, the Credit Provider and the Trustee, which opinion may be based on a ruling or rulings of the Internal Revenue Service.

"Outstanding" means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under this 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 this Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article III provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article II, Section 3.8(D), Section 3.13 or Section 12.6 of the Indenture; and

(iv) Bonds deemed to have been paid as provided in Section 13.1(B) of the Indenture.

"Owner" means any person who shall be the registered owner of any Bond or Bonds.

"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 Section 10.2 of the Indenture as a paying agent for the Bonds, and any successor or successors appointed by a Designated Official or the Trustee under this Indenture.

"Payment Sub-Account" means the sub-account of that name in the Pledged Revenues Account established in Section 5.3 of the Indenture.

"Person" means and includes an association, unincorporated organization, a corporation, a partnership, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

"Pledged 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, 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 assumed interest rate equal to the greater of (i) 4.5% or (ii) the actual weighted average interest rate borne by such Bonds for the 12-month period ending on the preceding February 1 (or such shorter period from the Date of Issuance to February 1, 2001); 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 o on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds, (B) the known interest to accrue with respect to any Bonds in the Flexible Mode o 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 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 Fixed Rate or Fixed Rates then borne by such Bonds, 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 Credit Provider Bonds, an amount equal to the sum of (A) one year's interest on such Credit Provider Bonds based upon the aggregate principal amount of such Credit Provider 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) 8% or (ii) the average Credit Provider Rate for the 12-month period ending on the preceding February 1 (regardless of whether Credit Provider 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 State Aid Revenues" means that amount of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future, not in excess of $175,000,000 in any year, 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 in such year.

"Pledged State Aid Revenues Sub-Account" means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account.

"Pledged Taxes" means the ad valorem taxes levied or to be levied pursuant to the covenant contained in Section 8.6(D) of the Indenture against all of the taxable property in the School District without limitation as to rate or amount, and pledged hereunder as security for the Bonds and any Credit Provider Reimbursement Obligations.

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

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

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

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

"Principal Sub-Account" means the sub-account of that name in the Bond Payment Account established in Section 5.3 of the Indenture.

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

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

"Project Fund" means the Project Fund established in Section 5.2 of the Indenture.

"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 Section 2.2(B)(ii) of the Indenture, (b) during any Flexible Mode, the Business Day(s) specified in the notice delivered to the Trustee in accordance with Section 2.2(C), 4.1(C) or 4.2(B) of the Indenture, and (c) 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 Section 2.2(B)(ii) 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 Section 2.2(C), 4.1(C) or 4.2(B) of the Indenture, (c) the Rate Period during a Fixed Mode, the date of the firm underwriting or purchase contract referred to in Section 4.3 of the Indenture, (d) the Rate Period following a proposed Fixed Rate Conversion Date in the event of a failed conversion, such proposed Fixed Rate Conversion Date, and (e) the Rate Period following a failed Interest Mode conversion pursuant to Section 4.1(D) of 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 (a) with respect to any Bond during a Short Mode, the Business Day immediately preceding each Interest Payment Date for such Bond and (b) with respect to any Bond during a Fixed Mode, February 15 and August 15 (whether or not a Business Day); provided, however, that if the Fixed Rate Conversion Date shall occur on or after February 15 but prior to March I, or on or after August 15 but prior to September I, the Record Date shall be the Fixed Rate Conversion Date.

"Redemption Price" means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

"Registrar" means the Trustee and any other bank, national banking association or trust company appointed by a Designated Official under this 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. The Remarketing Agent on the date hereof is Barclays Capital and its successors and assigns in such capacity.

"Remarketing Agreement" means the Remarketing Agreement dated as of December 29, 2011 between the Board and the Remarketing Agent, as the same may be amended, supplemented or assigned from time to time, or any similar agreement as may be substituted therefore.

"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 DTC and any other securities depository registered as a clearing agency with the Securities and Exchange Commission pursuant to Section 17A of the Securities Exchange Act of 1934, as amended, and appointed as the securities depository for the Bonds.

"Series 2000A Bonds" means the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000A, dated July 1, 2000, of the Board.

"Series 2000A Indenture" means the Trust Indenture, dated as of July 1, 2000, between the Board and Amalgamated Bank of Chicago as trustee, providing for the issuance of the Series 2000A Bonds.

"Short Mode" means a Flexible Mode or a Weekly Mode.

"Short Rate" means a Flexible Rate or a Weekly Rate.

"SLG's" means United States Treasury Certificates of Indebtedness, Notes and Bonds - State and Local Government Series.

"Special Credit Default" means each "default" or "event of default," if any, under a Credit Agreement the consequence of which is that the obligation of the Credit Provider to provide funds for the purchase of Tendered Bonds thereunder is either suspended or terminated without prior notice to Owners, as described in Section 3.2 of the Indenture.

"Special Record Date" means the date fixed by the Trustee pursuant to Section 2.2(F) of the Indenture for the payment of Defaulted Interest.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw-Hill, 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 Termination Date" means the stated date upon which the Credit Facility under a Credit Agreement by its term expires, as the same may be extended from time to time.

"Substitute Adjustment Date" means any Business Day during any Adjustment Period for Credit Provider Bonds designated by the Board in accordance with Section 4.2 of the Indenture as the first day of a new Adjustment Period.

"Substitute Credit Provider" means one or more commercial banks, trust companies or financial institutions obligated under any Substitute Credit Agreement selected by the Board.

"Substitute Credit Agreement" means any agreement (other than the 2011 Credit Agreement) between the Board and any Substitute Credit Provider as it may from time to time be amended or supplemented, pursuant to which a Substitute Credit Facility shall be in effect

"Substitute Credit Facility" means a Credit Facility provided by a Substitute Credit Provider other than the Credit Provider providing the Credit Facility on or prior to the Credit Substitution Date; provided, however, that none of the following shall be deemed a Substitute Credit Facility: a change in the Credit Agreement pursuant to which the Credit Facility is issued; a change in the number of days of interest or interest rate covered by the Credit Facility; and a renewal of the term of the existing Credit Facility.

"Supplemental Indenture" means any Supplemental Indenture between the Board and the Trustee authorized pursuant to Article IX hereof.

"Tax Agreement" means the Arbitrage and 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 Sections 3.1, 3.2, 33, 3.4 or 3.5 of the Indenture.

"Trustee" means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under this Indenture as hereinafter provided.

"*Trust Estate*" means the Pledged State Aid Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to this 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.

"*U.S. Government Securities Dealers*" means any U.S. Government Securities Dealer appointed by the Board, with the approval of the Market Agent.

"*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 Section 2.2(B) of the Indenture.

"*Weekly Rate*" means, for each Rate Period during any Weekly Mode, the rate of interest established pursuant to Section 2.2(c) of 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.

"*Year*" or "*year*" means a calendar year.

PLEDGE OF TRUST ESTATE

In order to secure the payment of the principal of, premium, if any, and interest on all Bonds issued under the Indenture and any unpaid Credit Provider Reimbursement Obligations, and the performance and observance of each and every covenant and condition contained in the Indenture and in the Bonds, the Board in the Indenture pledges and grants a lien upon the following Trust Estate to the Trustee, to the extent provided in the Indenture:

(A) The Pledged State Aid Revenues (subject to the parity claim on the Pledged State Aid Revenues for the Commission Obligations and the Series 2000A Bonds described below) and the Pledged Taxes.

(B) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to this Indenture, with the exception of the Bond Purchase Fund (which shall be held exclusively for the payment of the purchase price of Tendered Bonds).

(C) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons to be held by the Trustee under the terms of this Indenture.

THE BONDS ARE GENERAL OBLIGATIONS

The Bonds and any unpaid Credit Provider Reimbursement Obligations shall constitute the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged State Aid Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds and any unpaid Credit Provider Reimbursement Obligations do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless

the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds will be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows that the Bonds have been paid from the Pledged State Aid Revenues for a complete fiscal year of the Board.

ADDITIONAL BONDS PAYABLE FROM PLEDGED STATE AID REVENUES

The Board will not issue any bonds or other evidences of indebtedness other than the Bonds, which are secured by a pledge of or lien on the Pledged State Aid Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture except in accordance with the provisions of the Indenture. The Indenture authorizes the issuance of Additional Bonds payable from all or any portion of the Pledged State Aid Revenues or any other source of payment which may be pledged under the Act, and any such Additional Bonds will share ratably and equally in the Pledged State Aid Revenues with the Bonds, the Commission Obligations and the Series 2000A Bonds; *provided, however,* that no Additional Bonds may be issued except m accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Pledged State Aid Revenues subordinate to the Bonds, the Commission Obligations and the Series 2000A Bonds. Such subordinate obligations will be paid from Pledged State Aid 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 Credit Provider Rate or a Short 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 Fixed Rate will be payable at the principal corporate trust office of the Trustee or, at the option of the Owners, at the principal corporate trust office of any Paying Agent named in such Bonds, upon presentation and surrender of such Bonds. Any payment of the purchase price of a Tendered Bond will be payable at the principal corporate trust office of the Trustee's Agent (or at such other office as may be designated by the Trustee), upon presentation and surrender of such Tendered Bond described in this Remarketing Circular under the heading "THE BONDS – TENDERS."

Interest on Bonds bearing interest at a Weekly 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 owner 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 of the global book-entry only system described in the body of this Remarketing Circular and in the immediately succeeding paragraph, upon surrender for registration of transfer of any Bond at the designated 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 bearing numbers not contemporaneously Outstanding. Subject to the limitations contained in the immediately succeeding paragraph, Bonds may be exchanged at such times at such designated 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 bearing numbers not contemporaneously Outstanding. 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 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 herein provided or during the period of fifteen (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 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 herein provided, 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 PROJECT FUND

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

(i) the costs of an aggregate amount set forth in such certificate are necessary and appropriate Project Costs that (A) have been incurred and paid or (B) are expected to be paid within the next 60 days;

(ii) the amount to be paid or reimbursed to the Board, as set forth in such certificate, is reasonable and represents a part of the amount payable for the Project Costs and that such payment is to be made or, in the case of reimbursement to the Board, was made, in accordance with the terms of any applicable contracts and in accordance with usual and customary practice under existing conditions;

(iii) that no part of the Project Costs that are the subject of such certificate was included in any certificate previously filed with the Trustee under the provisions of the Indenture; and

(iv) the use of the money so withdrawn from the Project Fund and the use of the facilities provided with such moneys will not result in a violation of any covenant, term or provision of the Tax Agreement.

Moneys in the Project Fund will be invested at the written direction of a Designated Official to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay Project Costs or such other costs as may be required to be paid from such moneys. The Board may, and to the extent required for payments from the Project Fund will, direct the Trustee to sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, will be held in the Project Fund. Earnings received on moneys or securities in the Project Fund will be retained therein and applied to the purposes for which moneys in the Project Fund are otherwise held.

The completion, substantial completion or abandonment of the Project is to be evidenced by a certificate of an Authorized Officer, which is to be filed promptly with the Trustee, stating the date of such completion, anticipated completion or abandonment and the amount, if any, required in the opinion of the signer of such certificate for the payment of any remaining part of the Project Cost. Upon the filing of such certificate, the balance in the Project Fund in excess of the amount, if any, stated in such certificate of the Board as necessary to complete the Project will be deposited into such accounts of the Debt Service Fund as may be directed in such certificate.

INVESTMENT OF FUNDS

INVESTMENT OF CERTAIN MONEYS

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and in the Project Fund will be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters established in 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; provided, however, that the proceeds of the Credit Facility will only be invested in Government Obligations of the type described in clause (i) of the definition of such term. Nothing contained in the Indenture will be construed to prevent such Designated Official from directing the Trustee to make any such investments or reinvestments through the use of a Forward Supply Contract, to the extent permitted by State law and the Investment Policy, and the Trustee will comply with the terms and provisions of any such Forward Supply Contract. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. All such investments made under the Indenture must 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 STATE AID REVENUES

Pursuant to Section 15(e) of the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds or any unpaid Credit Provider Reimbursement Obligations, to provide for, collect and apply the Pledged State Aid Revenues to the payment of the Bonds and any unpaid Credit Provider Reimbursement Obligations and the provision of not less than an additional .25 times debt service. The Board and its officers will comply with all present and future applicable laws, including the provisions of Article 18 of the School Code, in order to assure that the Pledged State Aid Revenues may be allocated and paid to the Board for application as provided in the Indenture.

COVENANTS REGARDING PLEDGED TAXES

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. So long as any of the Bonds remain Outstanding or there are any unpaid Credit Provider Reimbursement Obligations, 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 will provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year.

As described in this Remarketing Circular under the heading "SECURITY FOR THE BONDS - Application of Pledged State Aid Revenues; Abatement of Pledged Taxes," 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.

So long as there are any Outstanding Bonds or any unpaid Credit Provider Reimbursement Obligations, the Board and its officers will comply with all present and future applicable laws in order to assure that the Pledged Taxes may be levied and extended and collected and deposited to the Pledged Taxes Account as described above.

ACCOUNTS AND REPORTS

The Board 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 State Aid Revenues, the Pledged Taxes and the Funds, Accounts and Sub-Accounts established by the Indenture, and which, together with all other books and financial records of the Board, will at all reasonable times be available for the inspection of the Trustee and the Owners of not less than twenty-five percent (25%) in original principal amount of Outstanding Bonds or their representatives duly authorized in writing.

ARBITRAGE

The Board will not at any time permit any of the proceeds of the Bonds or any other funds of the Board to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in the Code and Regulations.

RIGHTS OF CREDIT PROVIDER

Anything in the Indenture or the Bonds to the contrary notwithstanding, the Credit Provider may exercise any option, vote, right, power or the like granted to the Owners of the Bonds hereunder, with respect to any Credit Provider Bonds held by it at any time. No consent of or notice to the Credit Provider will be required under any provision of the Indenture, nor will the Credit Provider have any right to receive notice of, consent to, direct or control any actions, restrictions, rights, remedies, waivers or accelerations pursuant to any provision of the Indenture, during any time which:

(i) the Credit Provider is in default in its obligation to honor draws or claims under and in compliance with the terms of the Credit Facility;

(ii) the Credit Facility for any reason ceases to be valid and binding on the Credit Provider or is declared to be null and void, or the validity or enforceability of any provision of the Credit Facility is denied by the Credit Provider or any governmental agency or authority, or the Credit Provider is denying further liability or obligation under the Credit Facility, in all of the above cases contrary to the terms of the Credit Facility;

(iii) a petition has been filed and is pending against the Credit Provider under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and has not been dismissed within thirty (30) day after such filing;

(iv) the Credit Provider has filed a petition, which is pending, under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law, of any jurisdiction, whether now or hereafter in effect, or has consented to the filing of any petition against it under such law; or

(v) the Credit Provider is dissolved or confiscated by action of government due to war or peace time emergency or the United States government declares a moratorium on the Credit Provider's activities.

EVENTS OF DEFAULT AND REMEDIES

EVENTS OF DEFAULT

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

(i) if a default occurs in the due and punctual payment of interest on any Bond, when and as such interest becomes due and payable;

(ii) 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;

(iii) 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;

(iv) if the Trustee receives notice from the Credit Provider that an Event of Default has occurred under the Credit Agreement;

(v) 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 original principal amount of the Outstanding Bonds; or

(vi) if the Board files a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

PROCEEDINGS BROUGHT BY TRUSTEE

There is no provision for the acceleration of the maturity of the Bonds if an Event of Default occurs under the Indenture.

If an Event of Default happens and is not remedied, then and in every such case, the Trustee, with the prior written consent of the Credit Provider, by its agents and attorneys, may proceed, and upon the written direction of the Credit Provider, if any, and otherwise upon identical written request of the Owners of not less than a majority in original principal amount of the Bonds Outstanding and upon being indemnified by such Owners to its satisfaction will proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for an accounting against the Board as if the Board were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the trustee, being advised by counsel, will deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

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

The Owners of not less than a majority in original 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; provided further, that, if the Credit Provider has not failed to honor a properly presented and conforming drawing under the Credit Facility, (a) no such direction shall be followed by the Trustee without the prior written consent of the Credit Provider and (b) the Credit Provider may direct proceedings without any action by the Owners of any Bonds.

APPLICATION OF TRUST ESTATE AND OTHER MONEYS ON DEFAULT

During the continuance of an Event of Default, the Trustee will apply all moneys, securities, funds, Pledged State Aid Revenues and Pledged Taxes and the income therefrom (other than amounts paid under the Credit Facility, which will be applied only to pay principal of and interest on the Bonds) as follows and in the following order:

(i) 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

(ii) to the payment of principal of, Redemption Price and interest on the Bonds and Credit Provider Reimbursement Obligations 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 Credit Provider Reimbursement Obligations relating to any drawing under the Credit Facility to pay interest on the Bonds, and, if the amount available is not sufficient to pay in full any installment or installments of interest and Credit Provider Reimbursement Obligations 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 Credit Provider Reimbursement Obligations relating to any drawing under the Credit Facility to pay the principal or Redemption Price of any Bond, and, if the amount available is not sufficient to pay in full all the Bonds and Credit Provider Reimbursement Obligations 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.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue

sums payable by the Board under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of the Board or any unpaid Credit Provider Reimbursement Obligations, or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor and all Credit Provider Reimbursement Obligations are paid in full and the Credit Facility is terminated in accordance with its terms, 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.

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 original 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.

REMEDIES CONFERRED BY THE ACT

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

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 herein. In the event there is a conflict between any direction given to the Trustee by the Credit Provider pursuant to the terms of the Indenture and any direction given to the Trustee by the Owners of the Bonds, any taxpayer of the Board or the People of the State of Illinois acting through the Attorney General or any

designee pursuant to Section 15(e) of the Act, such direction given to the Trustee pursuant to Section 15(e) of the Act shall govern.

NO REMEDY EXCLUSIVE

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee, the Credit Provider or the Owners is intended to be exclusive of any other remedy, but each remedy will be cumulative and will be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

WAIVER

The Owners of not less than two-thirds in original 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; *provided*, however, that no such waiver will be effective unless and until the Credit Facility has been reinstated. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

PROVISIONS RELATING TO TRUSTEE

Resignation and Removal of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to the Board, all Owners of the Bonds, the other Fiduciaries, the Remarketing Agent and the Credit Provider, 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 90 days following the giving of notice, then the Trustee is authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below.

The Trustee may be removed at any time by an instrument in writing approved by and executed in the name of the Board and delivered to the Trustee; *provided, however,* that if an Event of Default will have occurred and be continuing, the Trustee may be so removed by the Board only with the written concurrence of the Owners of a majority in original principal amount of Bonds then Outstanding. The Trustee may be removed at any time by the Owners of a majority in original principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the Board.

Appointment of Successor Trustee. In case at any time the Trustee 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 approved by the Credit Provider, which approval will not be unreasonably withheld. The Board will cause notice of any such appointment made by it to be mailed to all Owners of the Bonds.

If no appointment of a Trustee is made by the Board as described in the foregoing paragraph, the Owner of any Outstanding Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any successor Trustee appointed under the provisions of the Indenture must be a bank or trust company or national banking association, doing business and having 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 State Aid 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;

(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 or a different Short Rate, all as provided in the Indenture, 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 Credit Facility;

(xi) to evidence or give effect to, or facilitate, the delivery and administration under the Indenture of a Substitute Credit Agreement and a Substitute Credit Facility, including, but not limited to, such provisions as are necessary to permit the issuer of such a Substitute Credit Agreement to provide credit support relating to payment of principal of and interest on the Bonds and a separate issuer of another Substitute Credit Agreement to provide liquidity support relating to payment of the purchase price of Bonds delivered or deemed delivered hereunder for purchase;

(xii) 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;

(xiii) 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 Credit 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;

(xv) 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

(xvi) 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 Credit Provider. As long as (i) a Credit Facility is in effect or any Credit Provider Bonds are outstanding, or (ii) the Credit Provider Obligations remain unsatisfied, no Supplemental Indenture described under "SUPPLEMENTAL INDENTURES" above will become effective unless and until the Trustee has received Credit Provider 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 Credit Provider at least fifteen Business Days prior to the proposed date of execution and delivery of such Supplemental Indenture. The Credit Provider 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 Credit Provider 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 original principal amount of the Bonds then Outstanding will 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 State Aid Revenues in connection with the issuance of Additional

Bonds, the creation of any lien prior to or on a parity with the lien of the Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, or (d) a reduction in the aforesaid aggregate original 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. 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 (A) the Owners of the required original principal amount of Outstanding Bonds and (B) the Credit Provider, 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 original principal amount of Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel’s Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee’s written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required.

DEFEASANCE

If the Board pays or causes to be paid or there is otherwise paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, and satisfies in full the Credit Provider Reimbursement Obligations and terminates the Credit Facility in accordance with its terms, then the pledge of the Trust Estate pledged under the Indenture and all covenants, agreements and other

obligations of the Board to the Owners will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, 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 any Credit Provider Reimbursement 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 Credit Provider Reimbursement Obligations specifically related thereto and terminates the Credit Facility in accordance with its terms, such Bonds 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 Credit Provider 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, 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.

APPENDIX D

Forms of Opinions of Initial Co-Bond Counsel

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GARDNER, CARTON & DOUGLAS
SUITE 3400-QUAKER TOWER
321 NORTH CLARK STREET
CHICAGO, ILLINOIS 60610-4795
(312) 644-3000
FAX: (312) 644-3381
INTERNET: gcdlawchgo@gcd.com
WASHINGTON, D.C.

September 7, 2000

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

Amalgamated Bank of Chicago
One West Monroe Street
Chicago, Illinois 60603

Dexia Public Finance Bank
New York Agency
445 Park Avenue
New York, New York 10022

Banc of America Securities LLC
as Representative of the Underwriters
named in the Bond Purchase Agreement,
dated September 6, 2000
231 South LaSalle Street
Chicago, Illinois 60697

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022

Re: Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2000B

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the Board of Education of the City of Chicago (the *"Board"*) of its $101,000,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B (the *"Bonds"*). As co-bond counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Bonds. The Bonds are being issued pursuant to a Trust Indenture dated as of September 1, 2000 (the *"Indenture"*), between the Board and Amalgamated Bank of Chicago, as trustee (the *"Trustee"*), the authority of the Local Government Debt Reform Act of the State of Illinois, as amended, and Resolutions adopted by the Board on August 26, 1998 and June 28, 2000 (collectively, the *"Bond Resolution"*). The Bonds are dated the date hereof, are being issued in fully registered form, and mature on March 1, 2032. As provided in the Indenture, the interest rate borne by the Bonds may be changed from time to time to a Weekly Rate, a Flexible Rate, an Auction Rate or a Fixed Rate and under certain circumstances, the Bonds may bear interest at a

Bank Rate, pursuant to the terms and conditions of the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture.

Subject to the terms and conditions set forth in the Indenture, the Bonds are subject to mandatory and optional redemption, and optional and mandatory tender for purchase, prior to maturity.

The Bonds are issued for the purpose of (i) constructing, acquiring and equipping 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"*) and (ii) paying costs related to the issuance of the Bonds.

In our capacity as co-bond counsel, we have examined, among other things, the following:

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

(b) a certified copy of the Bond Resolution;

(c) an executed counterpart of the Indenture;

(d) an executed counterpart of a Standby Bond Purchase Agreement, dated as of September 1, 2000 (the *"Liquidity Facility"*), among the Board, Dexia Public Finance Bank and the Trustee;

(e) the Municipal Bond Insurance Policy (the *"Bond Insurance Policy"*) issued on the date hereof by Financial Security Assurance Inc.; and

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

Based upon the foregoing we are of the opinion that:

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

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

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

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

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

6. The Bonds are payable ratably and equally (i) together with (A) the payments required to be made by the Board pursuant to the Lease Agreement (Series C of 1999), dated as of September 1, 1999, between the Public Building Commission of Chicago, Cook County, Illinois and the Board (such payments being referred to as the *"Commission Obligations"*), (B) the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000A, dated July 1, 2000, heretofore issued by the Board (the *"Series 2000A Bonds"*), and (C) the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000C, dated the date hereof and being issued simultaneously by the Board with the Bonds (the *"Series 2000C Bonds"*), from the *"Pledged Revenues"*, being that amount of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code of the State of Illinois, as amended, or such successor or replacement fund or act as may be enacted in the future, not in excess of $175,000,000 in any year, as shall provide for the payment of the Bonds, the Commission Obligations, the Series 2000A Bonds and the Series 2000C Bonds and the provision of not less than an additional .25 times debt service on the Bonds, the Commission Obligations, the Series 2000A Bonds and the Series 2000C Bonds in such year and (ii) from the *"Pledged Taxes"*, being the ad valorem taxes levied or to be levied pursuant to the Bond Resolution and the Indenture against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Bonds. The Bonds are further secured by the other moneys, securities and funds pledged under the Indenture.

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

8. Subject to the condition that the Board complies with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the *"Code"*), under present law, the Bonds are not "private activity bonds" under the Code, and interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be included in "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax for such corporations. Failure to comply with certain of these covenants could cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers. We express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with

the Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the tax exempt status of the Bonds.

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

No opinion is expressed with respect to the authorization, execution or enforceability of the Liquidity Facility or the Bond Insurance Policy. Additionally, no opinion is expressed at this time as to the effect of any change in Interest Mode for the Bonds upon the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes.

Very truly yours,

Gardner, Carton & Douglas

WECorbin/RDStephan/RLCapizzi:jts

McGaugh & Associates
One South Wacker Drive
Suite 2290
Chicago, Illinois 60606-4677
(312) 739-0785

September 7, 2000

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

Amalgamated Bank of Chicago
One West Monroe Street
Chicago, Illinois 60603

Dexia Public Finance Bank
New York Agency
445 Park Avenue
New York, New York 10022

Banc of America Securities LLC
as Representative of the Underwriters
named in the Bond Purchase Agreement,
dated September 6, 2000
231 South LaSalle Street
Chicago, Illinois 60697

Financial Security Assurance Inc.
350 Park Avenue
New York, New York 10022

Re: Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2000B

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the Board of Education of the City of Chicago (the *"Board"*) of its $101,000,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B (the *"Bonds"*). As co-bond counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Bonds. The Bonds are being issued pursuant to a Trust Indenture dated as of September 1, 2000 (the *"Indenture"*), between the Board and Amalgamated Bank of Chicago, as trustee (the *"Trustee"*), the authority of the Local Government Debt Reform Act of the State of Illinois, as amended, and Resolutions adopted by the Board on August 26, 1998 and June 28, 2000 (collectively, the *"Bond Resolution"*). The Bonds are dated the date hereof, are being issued in fully registered form, and mature on March 1, 2032. As provided in the Indenture, the interest

rate borne by the Bonds may be changed from time to time to a Weekly Rate, a Flexible Rate, an Auction Rate or a Fixed Rate and under certain circumstances, the Bonds may bear interest at a Bank Rate, pursuant to the terms and conditions of the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture.

Subject to the terms and conditions set forth in the Indenture, the Bonds are subject to mandatory and optional redemption, and optional and mandatory tender for purchase, prior to maturity.

The Bonds are issued for the purpose of (i) constructing, acquiring and equipping 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"*) and (ii) paying costs related to the issuance of the Bonds.

In our capacity as co-bond counsel, we have examined, among other things, the following:

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

(b) a certified copy of the Bond Resolution;

(c) an executed counterpart of the Indenture;

(d) an executed counterpart of a Standby Bond Purchase Agreement, dated as of September 1, 2000 (the *"Liquidity Facility"*), among the Board, Dexia Public Finance Bank and the Trustee;

(e) the Municipal Bond Insurance Policy (the *"Bond Insurance Policy"*) issued on the date hereof by Financial Security Assurance Inc.; and

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

Based upon the foregoing we are of the opinion that:

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

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

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

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

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

6. The Bonds are payable ratably and equally (i) together with (A) the payments required to be made by the Board pursuant to the Lease Agreement (Series C of 1999), dated as of September 1, 1999, between the Public Building Commission of Chicago, Cook County, Illinois and the Board (such payments being referred to as the *"Commission Obligations"*), (B) the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000A, dated July 1, 2000, heretofore issued by the Board (the *"Series 2000A Bonds"*), and (C) the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000C, dated the date hereof and being issued simultaneously by the Board with the Bonds (the *"Series 2000C Bonds"*), from the *"Pledged Revenues"*, being that amount of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code of the State of Illinois, as amended, or such successor or replacement fund or act as may be enacted in the future, not in excess of $175,000,000 in any year, as shall provide for the payment of the Bonds, the Commission Obligations, the Series 2000A Bonds and the Series 2000C Bonds and the provision of not less than an additional .25 times debt service on the Bonds, the Commission Obligations, the Series 2000A Bonds and the Series 2000C Bonds in such year and (ii) from the *"Pledged Taxes"*, being the ad valorem taxes levied or to be levied pursuant to the Bond Resolution and the Indenture against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Bonds. The Bonds are further secured by the other moneys, securities and funds pledged under the Indenture.

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

8. Subject to the condition that the Board complies with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the *"Code"*), under present law, the Bonds are not "private activity bonds" under the Code, and interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be included in "adjusted current earnings" of certain corporations for purposes of computing the alternative minimum tax for such corporations. Failure to comply with certain of these covenants could cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers. We express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering our opinion on tax exemption, we have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with

Bonds, the application of proceeds of the Bonds and certain other matters pertinent to the tax empt status of the Bonds.

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

No opinion is expressed with respect to the authorization, execution or enforceability of he Liquidity Facility or the Bond Insurance Policy. Additionally, no opinion is expressed at this me as to the effect of any change in Interest Mode for the Bonds upon the exclusion of interest the Bonds from gross income of the owners thereof for federal income tax purposes.

Very truly yours,

McGaugh & Associates

McGaugh & Associates

DRAFTv2

APPENDIX E

Form of Opinion of 2011 Bond Counsel

December 29, 2011

Board of Education of the City of Chicago
Chicago, Illinois

Amalgamated Bank of Chicago, as trustee
Chicago, Illinois

Re; Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B

Ladies and Gentlemen:

We have acted as bond counsel to the Board of Education of the City of Chicago (the "*Board*") in connection with the transaction described in this opinion. On September 7, 2000 (the "*Date of Issuance*",) the Board issued its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2000B (the "*Bonds*"), in the aggregate principal amount of $101,000,000 pursuant to a Trust Indenture dated as of September 1, 2000 (the "*Original Indenture*") between the Board and Amalgamated Bank of Chicago, as trustee (the "*Trustee*"). On the Date of Issuance the Board:

(i) obtained a municipal bond insurance policy from Financial Security Assurance Inc. (succeeded by Assured Guaranty Municipal Corp.) (the "*Insurer*") guaranteeing the payment of the principal of and interest on the Bonds when due (the "*Policy*");

(ii) entered into a Standby Bond Purchase Agreement dated as of September 1, 2000 (the "*Standby Purchase Agreement*") between the Board and Dexia Public Finance Bank (the "*Standby Purchaser*") providing liquidity support for the Bonds; and

(iii) entered into a Remarketing Agreement dated as of September 1, 2000 (the "*Initial Remarketing Agreement*") between the Board and Banc of America Securities Inc. (the "*Initial Remarketing Agent*").

On the Date of Issuance, Gardner, Carton & Douglas, Chicago, Illinois and McGaugh & Associates, Chicago, Illinois, delivered their approving opinions as co-bond counsel (the" *Co-Bond Counsel Opinions*") relating to the Bonds.

On the date hereof:

(i) the Board and the Trustee are entering into an Amended and Restated Trust Indenture dated as of December 1, 2011 (the "*Amended and Restated Indenture*") between the Board and the Trustee amending and restating the Original Indenture;

(ii) the Board and the Insurer are terminating the Insurance Policy;

(iii) the Board and the Standby Purchaser are terminating the Standby Purchase Agreement;

(iv) the Board and Wells Fargo Bank, National Association, (the "*Bank*"), are entering a Reimbursement Agreement dated as of December 1, 2011 (the "*Reimbursement Agreement*"); and

(v) the Bank is issuing its Irrevocable Transferrable Letter of Credit dated the date hereof (the "*Letter of Credit*") pursuant to the Reimbursement Agreement to the Trustee to secure the payment of the principal of and interest on the Bonds when due and the payment of the purchase price of Bonds tendered for purchase.

The actions described in the preceding sentence are hereinafter collectively referred to as the "Transaction." No changes to the terms of the Bonds or the Original Indenture, other than those contained in the Amended and Restated Indenture, the Reimbursement Agreement and the Letter of Credit, have been made or are currently contemplated to be made in the future.

We have examined originals, or copies or otherwise identified to our satisfaction, of such documents, records and other instruments and such matters of law as we have deemed necessary for the purposes of this opinion, including particularly the following:

(i) the Original Indenture;

(ii) the Amended and Restated Indenture;

(iii) the Reimbursement Agreement; and

(iv) the Letter of Credit.

On the basis of that examination, we are the opinion that:

1. The Transaction, in and of itself, will not adversely affect the validity of the Bonds or cause the interest on the Bonds to become includable in the gross income of the owners thereof for federal income tax purposes;

2. The Board has full power and authority and has taken all necessary actions to authorize the execution and delivery of the Amended and Restated Indenture and the Reimbursement Agreement.

3. The Amended and Restated Indenture and the Reimbursement Agreement have each been duly authorized, executed and delivered by the Board and, assuming the due authorization, execution and delivery thereof by the other parties thereto, the Amended and Restated Indenture and the Reimbursement

Agreement constitute valid and binding obligations of the Board, enforceable in accordance with their respective terms, except as may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditor's rights generally, that enforcement by an equitable or similar remedy is subject to general principles of law and equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief, and as to provisions with respect to which the Board is obligated to indemnify or provide indemnification or contribution to any party, as to which we express no opinion.

The opinions set forth above are expressly limited to the matters expressly stated herein. We have assumed the correctness of the Co-Bond Counsel Opinions and, except as stated above, we have not been requested, nor have we undertaken, to review any matter or any event that may have occurred since the date of issuance of the Bonds relating to the Transaction, the validity of the Bonds or the excludability of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. This opinion is based on the law and facts in effect on and prior to the date hereof with respect to the Bonds and we assume no obligation to advise you of changes thereto occurring in the future. This opinion is for the sole benefit of the addressees. No other person may rely upon this opinion without our prior written consent.

Respectfully submitted,

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APPENDIX F

The 2011 Credit Provider

The information under this heading has been provided solely by the 2011 Credit Provider and is believed to be reliable. This information has not been verified independently by the Issuer or the Underwriter. The Issuer and the Underwriter make no representation whatsoever as to the accuracy, adequacy or completeness of such information.

Wells Fargo Bank, National Association

The 2011 Credit Provider is a national banking association organized under the laws of the United States of America with its main office at 101 North Phillips Avenue, Sioux Falls, South Dakota 57104, and engages in retail, commercial and corporate banking, real estate lending and trust and investment services. The 2011 Credit Provider is an indirect, wholly owned subsidiary of Wells Fargo & Company, a diversified financial services company, a financial holding company and a bank holding company registered under the Bank Holding Company Act of 1956, as amended, with its principal executive offices located in San Francisco, California ("Wells Fargo").

Effective at 11:59 p.m. on December 31, 2008, Wells Fargo acquired Wachovia Corporation and its subsidiaries in a stock-for-stock merger transaction. Information about this merger has been included in filings made by Wells Fargo with the Securities and Exchange Commission ("SEC"). Copies of these filings are available free of charge on the SEC's website at www.sec.gov. or by writing to Wells Fargo's Corporate Secretary at the address given below.

Each quarter, the 2011 Credit Provider files with the FDIC financial reports entitled "Consolidated Reports of Condition and Income for Insured Commercial Banks with Domestic and Foreign Offices," commonly referred to as the "Call Reports." The 2011 Credit Provider's Call Reports are prepared in accordance with regulatory accounting principles, which may differ from generally accepted accounting principles. The publicly available portions of the Call Reports contain the most recently filed quarterly reports of the 2011 Credit Provider, which include the 2011 Credit Provider's total consolidated assets, total domestic and foreign deposits, and total equity capital. These Call Reports, as well as the Call Reports filed by the 2011 Credit Provider with the FDIC after the date of this Offering Memorandum, may be obtained from the FDIC, Disclosure Group, Room F518, 550 17th Street, N.W., Washington, D.C. 20429 at prescribed rates, or from the FDIC on its Internet site at http://www.fdic.gov, or by writing to the Wells Fargo Corporate Secretary's Office, Wells Fargo Center, Sixth and Marquette, MAC N9305-173, Minneapolis, MN 55479.

The 2011 Credit Facility will be solely an obligation of the 2011 Credit Provider and will not be an obligation of, or otherwise guaranteed by, Wells Fargo & Company, and no assets of Wells Fargo & Company or any affiliate of the 2011 Credit Provider or Wells Fargo & Company will be pledged to the payment thereof. Payment of the 2011 Credit Facility will not be insured by the FDIC.

The information contained in this section, including financial information, relates to and has been obtained from the 2011 Credit Provider, and is furnished solely to provide limited introductory information regarding the 2011 Credit Provider and does not purport to be comprehensive. Any financial information provided in this section is qualified in its entirety by the detailed information appearing in the Call Reports referenced above. The delivery hereof shall not create any implication that there has been no change in the affairs of the 2011 Credit Provider since the date hereof.

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