

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



\$403,980,000
BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues), Series 2013A



consisting of

\$122,605,000
Unlimited Tax General Obligation
Refunding Bonds (Dedicated
Revenues), Series 2013A-1
(70% of One Month LIBOR)

\$124,320,000
Unlimited Tax General Obligation
Refunding Bonds (Dedicated
Revenues), Series 2013A-2
(SIFMA Index)

\$157,055,000
Unlimited Tax General Obligation
Refunding Bonds (Dedicated
Revenues), Series 2013A-3
(SIFMA Index)

Dated: Date of Issuance

Due: See the Inside Cover

The Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A (the "Bonds"), will be issued in three Sub-series: \$122,605,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-1 (70% of One Month LIBOR), \$124,320,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-2 (SIFMA Index) and \$157,055,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-3 (SIFMA Index). The Bonds are being issued by the Board of Education of the City of Chicago (the "Board") as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), as trustee, registrar and paying agent for the Bonds, to DTC, which in turn will remit such principal and interest payments to its participants for subsequent disbursement to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See "THE BONDS – Book-Entry-Only System" herein.

The Bonds of each Sub-series may bear interest from time to time in a Daily Mode, a Weekly Mode, a Flexible Mode (each a "Short Mode"), an Index Floating Rate Mode, a Term Rate Mode or a Fixed Mode. The Bonds will initially bear interest in the Index Floating Rate Mode until and unless converted to a different Interest Mode as described herein. See "THE BONDS – General."

If the Interest Mode applicable to any Sub-series of the Bonds is converted from the Index Floating Rate Mode to any other Interest Mode, it is expected that the Board will supplement this Official Statement or deliver a new Official Statement or other disclosure document describing the Bonds of such Sub-series bearing interest in such Interest Mode. Purchasers of any Sub-series of the Bonds should not rely on this Official Statement for information relating to such Sub-series of the Bonds bearing interest in a Short Mode, a Term Rate Mode or a Fixed Mode.

The proceeds of the Bonds will be used, together with certain funds legally available to the Board, to (i) refund all of certain outstanding series of bonds of the Board, and (ii) pay the costs of issuance of the Bonds (including the Underwriters' discount). See "PLAN OF FINANCE – Refunding of the Refunded Bonds" and "– Estimated Sources and Uses of Funds."

The Bonds will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds will be payable from Pledged State Aid Revenues and Pledged Taxes, all as described herein. To the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from *ad valorem* taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board, the boundaries of which are coterminous with the boundaries of the City of Chicago. The Bonds are also payable from all Funds, Accounts and Sub-Accounts (each as defined in APPENDIX C hereto) established pursuant to the Trust Indenture dated as of May 1, 2013, by and between the Board and the Trustee (the "Indenture") as security for the Bonds. See "SECURITY FOR THE BONDS."

Interest on the Bonds will be payable on the dates and at the rate described under "THE BONDS – INTEREST" and "–Interest Rate."

The Bonds are subject to optional and mandatory sinking fund redemption prior to maturity and mandatory tender for purchase as described herein. See "THE BONDS – Redemption" and "– Tender for Purchase."

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of the approving legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois and the McGaugh Law Group LLC, Chicago, Illinois, Co-Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, James L. Bebley, and by its special counsel, Greene and Letts, Chicago, Illinois, and for the Underwriters by their co-counsel, Pugh, Jones & Johnson, P.C., Chicago, Illinois and The Tyson Law Group, LLC, Chicago, Illinois. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about May 22, 2013.

J.P. Morgan

Loop Capital Markets

Siebert Brandford Shank & Co., L.L.C.

Dated: May 15, 2013

\$403,980,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues), Series 2013A

MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND CUSIPS†

All Bonds Priced at Par

\$122,605,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-1 (70% of One Month LIBOR)	\$124,320,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-2 (SIFMA Index)	\$157,055,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-3 (SIFMA Index)
CUSIP†: 167505QA7	CUSIP†: 167505QB5	CUSIP†: 167505QC3
Due: March 1, 2026	Due: March 1, 2035	Due: March 1, 2036
Interest Mode: Index Floating Rate Mode	Interest Mode: Index Floating Rate Mode	Interest Mode: Index Floating Rate Mode
Initial Index Floating Rate Period: May 22, 2013 to June 1, 2016	Initial Index Floating Rate Period: May 22, 2013 to June 1, 2017	Initial Index Floating Rate Period: May 22, 2013 to June 1, 2018
Initial Index Floating Rate: The sum of 70% of One Month LIBOR plus 0.58%	Initial Index Floating Rate: The sum of SIFMA Index plus 0.75%	Initial Index Floating Rate: The sum of SIFMA Index plus 0.83%
Initial Par Call Date: December 1, 2015	Initial Par Call Date: December 1, 2016	Initial Par Call Date: December 1, 2017

† Copyright 2013, American Bankers Association. CUSIP data used herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. The CUSIP numbers listed are being provided solely for the convenience of the Owners only at the time of issuance of the Bonds and neither the Board nor the Underwriters make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions, including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

REGARDING USE OF THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

MEMBERS

David J. Vitale
President

Jesse H. Ruiz
Vice President

Carlos M. Azcoita
Henry S. Bienen
Mahalia A. Hines
Andrea Zopp

MANAGEMENT

Barbara Byrd-Bennett
Chief Executive Officer

Timothy Cawley
Chief Administrative Officer

Peter W. Rogers
Chief Financial Officer

James L. Bebley
General Counsel

Katten Muchin Rosenman LLP
McGaugh Law Group LLC
Co-Bond Counsel

A.C. Advisory, Inc.
The PFM Group
Co-Financial Advisors

TABLE OF CONTENTS

	Page
OFFICIAL STATEMENT SUMMARY	i
INTRODUCTION	1
General	1
Authorization for the Bonds	2
Security for the Bonds	2
No Credit Facility	2
Prior Authorization Bonds and Additional Bonds	3
Other Alternate Bonds	4
THE BONDS	4
General	4
Interest	4
Interest Rate	5
Remarketing in New Index Floating Rate Period	7
Conversion to Interest Mode Other Than Index Floating Rate Mode	7
Tender for Purchase	8
Redemption	10
Bond Registration and Transfers	13
Book-Entry-Only System	13
Defeasance	15
PLAN OF FINANCE	16
Use of Proceeds of the Bonds	16
Refunding of the Refunded Bonds	16
Future Financings	16
Estimated Sources and Uses of Funds	17
SECURITY FOR THE BONDS	17
General	17
General State Aid	18
Pledged Taxes	19
Debt Service Fund and Accounts	20
Pledge of Funds, Accounts and Sub-Accounts	22
Additional Bonds Payable From Pledged State Aid Revenues	22
Other Indebtedness	22
Bonds Are Obligations of the Board	22
BOARD OF EDUCATION OF THE CITY OF CHICAGO	22
General	22
Governing Body	23
Central Administration	25
School System	26
Capital Improvement Program	27
School Actions	27
Educational Reform Initiatives	28
Early Childhood Education Initiatives	31
Chicago Teachers' Union and Other Employee Groups	32
Overview of Board's Fiscal Year 2013 Budget and Recent Financial Information	
Concerning the Board	33
General Operating Fund Balances	34
Outstanding Debt Obligations	36
Board's Interest Rate Swap Agreements	40
Teacher Pension Obligations	41
Pensions for Other Board Personnel	52

TABLE OF CONTENTS

	Page
Other Post-Employment Benefits and Other Board Liabilities.....	53
Debt Management Policy.....	54
Investment Policy	54
OTHER LOCAL GOVERNMENTAL UNITS.....	54
Overlapping Entities	54
Major Units of Government.....	55
Interrelationships of These Bodies.....	55
Other Public Bodies	55
THE REAL PROPERTY TAX SYSTEM.....	56
Real Property, Assessment, Tax Levy and Collection Procedures	56
Property Tax Extension Limitation Law; Issuance of Alternate Bonds	61
Illinois Truth in Taxation Law	62
Bond Issue Notification Act.....	62
Property Tax Information	62
RATINGS	66
FINANCIAL STATEMENTS	67
CO-FINANCIAL ADVISORS	67
UNDERWRITING	67
CERTAIN LEGAL MATTERS.....	68
LITIGATION.....	68
General.....	68
Specific Matters	69
CONTINUING DISCLOSURE UNDERTAKING.....	73
Annual Financial Information Disclosure.....	73
Events Notification; Material Events Disclosure.....	74
Consequences of Failure to Provide Information	75
Amendment; Waiver.....	75
Termination of Undertaking	76
Dissemination Agent.....	76
AUTHORIZATION AND MISCELLANEOUS.....	S-1
APPENDIX A	Audited Financial Statements for Fiscal Year 2012
APPENDIX B	Pension Fund Actuarial Valuation for Fiscal Year 2012
APPENDIX C	Summary of Certain Provisions of the Indenture
APPENDIX D	Form of Opinion of Bond Counsel

OFFICIAL STATEMENT SUMMARY

Selected information is presented on this page for the convenience of the reader. To make an informed investment decision regarding the Bonds, a prospective investor should read the entire Official Statement, including its Appendices. This summary only applies to the Bonds while bearing interest in the Index Floating Rate Mode.

Description:	Board of Education of the City of Chicago Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-1 (70% of One Month LIBOR) (the “Series 2013A-1 Bonds”) Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-2 (SIFMA Index) (the “Series 2013A-2 Bonds”) Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-3 (SIFMA Index) (the “Series 2013A-3 Bonds”)
Principal Amount:	Series 2013A-1 Bonds \$122,605,000 Series 2013A-2 Bonds \$124,320,000 Series 2013A-3 Bonds \$157,055,000
Denominations:	\$100,000 and multiples of \$5,000 in excess thereof.
Date of Issue:	Date of Delivery (on or about May 22, 2013).
Record Date:	Business Day preceding each Interest Payment Date.
Interest Payments:	First Business Day of each calendar month, commencing July 1, 2013.
Maturity:	Series 2013A-1 Bonds: March 1, 2026 Series 2013A-2 Bonds: March 1, 2035 Series 2013A-3 Bonds: March 1, 2036
Initial Index Floating Rate Period:	Series 2013A-1 Bonds: May 22, 2013 to June 1, 2016 Series 2013A-2 Bonds: May 22, 2013 to June 1, 2017 Series 2013A-3 Bonds: May 22, 2013 to June 1, 2018
Mandatory Tender:	The Bonds are subject to mandatory tender for purchase at an amount equal to 100% of the principal amount thereof on the first Business Day following the last day of the Initial Index Floating Rate Period. <i>See pages 8-9.</i>
Redemption:	The Bonds are callable in whole or in part, by lot, at par on any Business Day on or after each Par Call Date at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date. The initial Par Call Date for the Series 2013A-1 Bonds is December 1, 2015. The initial Par Call Date for the Series 2013A-2 Bonds is December 1, 2016. The initial Par Call Date for the Series 2013A-3 Bonds is December 1, 2017. The Bonds are subject to mandatory sinking fund redemption as described herein. <i>See pages 10-12.</i>
Form:	Book-entry-only. <i>See pages 13-15.</i>

Trustee as Paying Agent:	All payments of principal of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A. All payments will be made to The Depository Trust Company, which will distribute payments to DTC Participants as described herein.
Security:	The Bonds will be a general obligation of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds will be payable from Pledged State Aid Revenues and Pledged Taxes, all as described herein. To the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from <i>ad valorem</i> 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 (as defined herein) established pursuant to the Indenture as security for the Bonds. <i>See pages 17-22.</i>
Additional Bonds:	The Board reserves the right to issue Additional Bonds (as defined herein), as described herein. <i>See page 22.</i>
Authority for Issuance:	The Bonds are being issued pursuant to the School Code of the State of Illinois, as amended, the Local Government Debt Reform Act of the State of Illinois, as amended, and the Bond Resolution (as defined herein).
Purpose:	The proceeds of the Bonds will be used, together with certain funds legally available to the Board, to (i) refund all of certain outstanding series of bonds of the Board, and (ii) pay the costs of issuance of the Bonds (including the Underwriters' discount).
Tax Exemption:	Subject to compliance by the Board with certain covenants, in the opinion of Katten Muchin Rosenman LLP and the McGaugh Law Group LLC, Co-Bond Counsel, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. However, such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from present State of Illinois income taxes. <i>See pages 64-65.</i>
Legal Opinions:	Validity and tax opinion to be provided by Katten Muchin Rosenman LLP and the McGaugh Law Group LLC, Co-Bond Counsel. <i>See Appendix D.</i>
Ratings:	Moody's: "A2" S&P: "A+"

*Preliminary, subject to change.

\$403,980,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues), Series 2013A

consisting of

\$122,605,000
Unlimited Tax General Obligation
Refunding Bonds (Dedicated Revenues),
Series 2013A-1
(70% of One Month LIBOR)

\$124,320,000
Unlimited Tax General Obligation
Refunding Bonds (Dedicated Revenues),
Series 2013A-2
(SIFMA Index)

\$157,055,000
Unlimited Tax General Obligation
Refunding Bonds (Dedicated
Revenues), Series 2013A-3
(SIFMA Index)

INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the "Board") of \$403,980,000 of its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013 (the "Bonds"). The Bonds are being issued in three Sub-series (each a "Sub-series"): \$122,605,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-1 (70% of One Month LIBOR) (the "Series 2013A-1 Bonds"), \$124,320,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-2 (SIFMA Index) (the "Series 2013A-2 Bonds") and \$157,055,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-3 (SIFMA Index) (the "Series 2013A-3 Bonds").

All capitalized terms used in this Official Statement and not otherwise defined in the body of the Official Statement have the same meanings as assigned thereto in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — Definitions of Certain Terms."

The proceeds of the Bonds will be used, together with certain legally available funds of the Board, to (i) refund all of certain outstanding series of bonds of the Board, and (ii) pay the costs of issuance of the Bonds (including the Underwriters' discount). See "PLAN OF FINANCE — Refunding of the Refunded Bonds" and "— Estimated Sources and Uses of Funds."

The Bonds will be issued under a Trust Indenture dated as of May 1, 2013 (the "Indenture"), by and between the Board and The Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as trustee, registrar and paying agent (the "Trustee", "Registrar" or "Paying Agent"). The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit.

The Bonds of each Sub-series may bear interest from time to time in a Daily Mode, a Weekly Mode, a Flexible Mode (each a "Short Mode"), an Index Floating Rate Mode, a Term Rate Mode or a Fixed Mode. The Bonds will initially bear interest in the Index Floating Rate Mode until and unless converted to a different Interest Mode as described herein.

This Official Statement describes only the terms and provisions applicable to any Sub-series of the Bonds while in the Index Floating Rate Mode. If the Interest Mode applicable to any Sub-series of the Bonds is converted to any other Interest Mode, it is expected that the Board will supplement this Official Statement or deliver a new Official Statement or other disclosure document describing the Bonds bearing interest in such Interest Mode. Purchasers of any Sub-series of the Bonds should not rely on this Official Statement for

information relating to such Sub-series of the Bonds bearing interest in a Short Mode, a Term Rate Mode or a Fixed Mode.

Authorization for the Bonds

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

On April 3, 2013, the Board adopted Resolution 13-0403-RS1 authorizing the issuance of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues) in an aggregate principal amount not to exceed \$600,000,000 (the “Bond Resolution”).

The term of each Sub-series of Bonds will not be longer than the term of the series of bonds being refunded by such Sub-series of Bonds; and the debt service payable in any year on each Sub-series of Bonds will not exceed the debt service in each year on the series of bonds being refunded by such Sub-series of Bonds.

Security for the Bonds

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

The Pledged State Aid Revenues are those payments received by the Board in any year pursuant to Article 18 of the School Code of the State of Illinois, as amended (the “School Code”), or such successor or replacement fund or act as may be enacted in the future and pledged to secure the Bonds. For additional information, see “SECURITY FOR THE BONDS – General” and “— General State Aid” and see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.” For a discussion of other obligations of the Board payable from the Pledged State Aid Revenues, see “Additional Bonds” below.

No Credit Facility

While the Bonds bear interest at the Index Floating Rate, no Credit Facility (as defined in the Indenture) will support the payment of principal, interest on, Redemption Price or the payment upon tender of the Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Prior Authorization Bonds and Additional Bonds

As statutory refunding bonds under Section 15(e) of the Debt Reform Act, each Sub-series of Bonds (or portion thereof) is secured by certain Pledged State Aid Revenues pledged under each of the Authorizations shown below:

Series 2013A-1 Bonds	Series 2013A-2 Bonds allocated to sinking fund payments from 2024 through 2031	Series 2013A-2 Bonds allocated to sinking fund payments from 2032 through 2035	Series 2013A-3 Bonds
2008 Authorization	2006 Authorization	2009 Authorization	2009 Authorization

Each Sub-series of Bonds (or portions thereof) is secured on a parity basis with all other Alternate Bonds issued under the same Authorization. The Alternate Bonds payable from State Aid Revenues that are currently outstanding under each Authorization are listed below (collectively, the “Prior Authorization Bonds”):

2006 Authorization	2008 Authorization	2009 Authorization
\$46,842,000 Series 2006B Bonds	\$205,175,000 Series 2008B Bonds	\$48,910,000 Series 2010A Bonds*
\$187,375,000 Series 2007D Bonds	\$464,655,000 Series 2008C Bonds	\$157,055,000 Series 2010B Bonds*
\$75,410,000 Series 2009B Bonds*	\$122,605,000 Series 2009A Bonds*	\$257,125,000 Series 2010C Bonds
\$52,465,000 Series 2009D Bonds	\$518,210,000 Series 2009E Bonds	\$125,000,000 Series 2010D Bonds
	\$12,325,000 Series 2009F Bonds	\$183,750,000 Series 2010F Bonds
	\$254,240,000 Series 2009G Bonds	\$72,915,000 Series 2010G Bonds
		\$402,410,000 Series 2011A Bonds
		\$95,100,000 Series 2011C Bonds
		\$95,000,000 Series 2011D Bonds
		\$468,915,000 Series 2012A Bonds

Pursuant to the Indenture, the Board reserves the right to issue Additional Bonds from time to time payable on a parity with a Sub-series of Bonds (or portions thereof) from all or any portion of the Pledged State Aid Revenues available under the respective Authorizations shown above or any other source of payment which may be pledged under the Debt Reform Act, and such Additional Bonds shall share ratably and equally in the Pledged State Aid Revenues with the appropriate Authorization Bonds and portion of the Bonds issued under the same Authorization. In any event, 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. There is no other limit on the aggregate principal amount of Additional Bonds that may be issued by the Board.

Pursuant to the Indenture, the Board also 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. See

* Series being refunded by the Bonds. See “PLAN OF FINANCE – Refunding of the Refunded Bonds.”

“SECURITY FOR THE BONDS — General,” and “– Additional Bonds Payable From Pledged State Aid Revenues”.

Other Alternate Bonds

In addition to the Bonds, the Board has issued and currently has outstanding approximately \$6.0 billion in Alternate Bonds payable from Alternate Revenues, including designated amounts of the Board’s State Aid Revenues that do not constitute the Pledged State Aid Revenues that secure the Bonds. See “BOARD OF EDUCATION OF THE CITY OF CHICAGO — Outstanding Debt Obligations.” In the future, the Board may issue Alternate Bonds payable from Alternate Revenues designated by the Board, including a designated amount of State Aid Revenues under future authorizing resolutions of the Board. See “SECURITY FOR THE BONDS — Other Indebtedness.”

THE BONDS

General

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

The Bonds of each Sub-series may bear interest from time to time in a Daily Mode, a Weekly Mode, a Flexible Mode (each a “Short Mode”), an Index Floating Rate Mode, a Term Rate Mode or a Fixed Mode. The Bonds will initially bear interest in the Index Floating Rate Mode until and unless converted to a different Interest Mode as described under the subcaption “– Conversion to Interest Mode Other Than Index Floating Rate Mode.” If the Bonds are converted to any other Interest Mode, the Board will supplement this Official Statement or deliver a new Official Statement or other disclosure document describing the Bonds bearing interest in such Interest Mode. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” for definitions of Interest Modes other than the Index Floating Rate Mode.

The Bonds, while in an Index Floating Rate Mode, are issuable in denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof (each an “Authorized Denomination”). See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Interest

From their initial issuance and delivery, unless and until converted to a different Interest Mode, each Sub-series of the Bonds will be in the Index Floating Rate Mode and will bear interest at the Index Floating Rate, established in accordance with the Indenture, as described below under “– Interest Rate.”

Each Bond will bear interest from and including the date of initial issuance and delivery thereof. Interest on the Bonds shall be computed on the basis of a 365- or 366-day year, as applicable, for the number of days actually elapsed. Interest on the Bonds in an Index Floating Rate Mode will be payable on the first

Business Day of each calendar month, each date on which the Bonds are remarketed to bear interest for a new Index Floating Rate Period (as defined below) or converted to bear interest in a different Interest Mode (an “Adjustment Date”) and at the Maturity Date (each such date an “Interest Payment Date”). The initial Interest Payment Date for the Bonds will be July 1, 2013.

Interest on the Bonds in an Index Floating Rate Mode will be payable during the applicable Index Floating Rate Period for the period from the first Interest Payment Date to, but not including, the earlier of (a) the next succeeding Interest Payment Date, (b) the Adjustment Date for the new Interest Mode or for the new Index Floating Rate Period succeeding the prior Index Floating Rate Period, or (c) the Maturity Date. Notwithstanding the foregoing, interest on Bonds authenticated prior to the first Interest Payment Date shall be payable on the first Interest Payment Date for the period from the Date of Issuance to, but excluding the first Interest Payment Date. The foregoing notwithstanding, no interest will accrue to an Owner 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).

Payment of interest on Bonds bearing interest at an Index Floating Rate shall be paid by check mailed on the Interest Payment Date to the person appearing on the Bond Register as the Owner thereof as of the close of business of the Trustee on the Record Date at the addresses of such Owners as they appear on the Bond Register, or at such other addresses as are furnished to the Trustee in writing by the Owners not later than the Record Date. Payment of interest on any Bond shall be made to the 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 Owner on such Interest Payment Date upon written notice from such Owner containing the wire transfer address within the United States to which such Owner wishes to have such wire directed, which written notice is received not later than the Business Day next preceding the Record Date.

Interest Rate

The Bonds will initially be issued in the Index Floating Rate Mode and bear interest, while in such Interest Mode, at a rate per annum (the “Index Floating Rate”) determined as described under this subcaption. All Bonds of a Sub-series in the Index Floating Rate Mode will bear interest at the same Index Floating Rate. However, different Sub-series of Bonds in the Index Floating Rate Mode may bear interest at different Index Floating Rates. The Bonds will bear interest at the Index Floating Rate during each period commencing with the Date of Issuance and, after the Date of Issuance, an Adjustment Date and ending on the date which is the earlier of the succeeding Adjustment Date or the Maturity Date (each such period, an “Index Floating Rate Period”). All Bonds of a Sub-series in the Index Floating Rate Mode will bear interest from time to time in Index Floating Rate Periods of the same duration. However, different Sub-series of Bonds in the Index Floating Rate Mode may bear interest from time to time in Index Floating Rate Periods of different durations.

At the end of an Index Floating Rate Period, in connection with (i) the conversion of Bonds in an Index Floating Rate Mode to bear interest in a Short Mode, or (ii) the remarketing of Bonds in an Index Floating Rate Mode for a new Index Floating Rate Period, the Board will appoint one or more placement or remarketing agents as remarketing agent (the “Remarketing Agent”) on or before the applicable Mandatory Tender Date.

The Initial Index Floating Rate for a Sub-series of Bonds issued or subsequently remarketed to bear interest at an Index Floating Rate is the rate of interest per annum determined by the underwriter of such Bonds (in the case of initial issuance) or the Remarketing Agent (in the case of a remarketing of the Bonds in an Index Floating Rate Mode) to be the sum of a percentage of an Index (as defined below) chosen by the Board not later than twenty (20) days prior to the Date of Issuance or the Adjustment Date, as the case may be, and a spread, to be determined by the underwriter or the Remarketing Agent, as applicable, not later than the day prior to the Date of Issuance or the Adjustment Date, that will result in the underwriter or the Remarketing Agent selling

the applicable Sub-series of Bonds at a price equal to par prior to or on the Date of Issuance or the Adjustment Date. Thereafter, a calculation agent selected by the Board (the “Calculation Agent”)* will determine the Index Floating Rate for such Bonds on (i) for the Series 2013A-1 Bonds, the first Business Day of each month and (ii) for the Series 2013A-2 Bonds and the Series 2013A-3 Bonds, each Wednesday (each such date a “Rate Determination Date” unless such date is not a Business Day, in which case the Rate Determination Date shall be the immediately preceding Business Day) during the Index Floating Rate Period established on the Date of Issuance or the Adjustment Date based on the Index and spread for such Bonds. The initial Calculation Agent is the Trustee.

With regard to any Sub-series of Bonds bearing interest in an Index Floating Rate Mode, as soon as possible after 11:00 a.m., but in no event later than 4:30 p.m. Chicago time, on each Rate Determination Date the Calculation Agent will give Immediate Notice of the Index Floating Rate determination for such Sub-series that will apply during the Rate Period (as defined below) beginning on the day following such Rate Determination Date (each such date a “Rate Change Date”). Such Immediate Notice will be delivered to the Board and the Trustee (which will subsequently notify the Owners of the applicable Sub-series of Bonds). If the Calculation Agent fails to determine the Index Floating Rate for any Rate Period, the Index Floating Rate in effect for the preceding Rate Period shall continue in effect for such Rate Period.

The Initial Index Floating Rate for each Index Floating Rate Period, as determined by the underwriter or the Remarketing Agent, as the case may be, shall apply to the period commencing on the Date of Issuance or the Adjustment Date, as the case may be, and ending on the first Rate Determination Date. Thereafter, each Index Floating Rate established on a Rate Determination Date shall apply for the period commencing on the Rate Change Date following the Rate Determination Date and ending on the subsequent Rate Determination Date, the Mandatory Purchase Date or the Maturity Date of the applicable Sub-series of Bonds (each such period a “Rate Period”).

The Initial Index Floating Rate (as shown on the inside cover page of this Official Statement for each Sub-series of Bonds) for the Initial Index Floating Rate Period for each Sub-series of the Bonds was determined by the Underwriters prior to the Date of Issuance. On each subsequent Rate Determination Date until the end of the Initial Index Floating Rate Period for each Sub-series of the Bonds, the Index Floating Rate will be determined by the Calculation Agent by calculating the sum of 70% of One Month LIBOR plus 0.58 % with respect to the Series 2013A-1 Bonds, the SIFMA Municipal Swap Index (the “SIFMA Index”) plus 0.75% with respect to the Series 2013A-2 Bonds and the SIFMA Index plus 0.83% with respect to the Series 2013A-3 Bonds. The Initial Index Floating Rate Period commences on the Date of Issuance of the Bonds and continues through June 1, 2016 in the case of the Series 2013A-1 Bonds, through June 1, 2017 in the case of the Series 2013A-2 Bonds and through June 1, 2018 in the case of the Series 2013A-3 Bonds.

For purposes of determination of the Index Floating Rate for any Index Floating Rate Period subsequent to the Initial Index Floating Rate Period, the Board may select one of the following Indices (each an “Index”):

- (i) One-Month LIBOR;
- (ii) Three-Month LIBOR;
- (iii) S&P Weekly High Grade Index;

* The Calculation Agent may be replaced by the Board upon 30 days’ notice to such Calculation Agent and may resign upon 60 days’ notice to the Board, effective upon the appointment of a successor Calculation Agent.

(iv) SIFMA Index; and

(v) Consumer Price Index.

The above Indices shall have the meanings described thereto in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Each Sub-series of Bonds bearing interest at an Index Floating Rate, which, on the applicable Mandatory Purchase Date (as defined herein), has not been successfully converted to another Interest Mode or remarketed on such Mandatory Purchase Date to bear interest for a new Index Floating Rate Period (the “Unremarketed Bonds”) will bear interest for each day such Sub-series of Bonds constitutes Unremarketed Bonds at a rate per annum equal to (a) from the first day through the ninetieth (90th) day such Sub-series of Bonds constitutes Unremarketed Bonds, the greater of (i) the SIFMA Index plus 5.0% or (ii) 7.5% and (b) thereafter, the Maximum Interest Rate.

If a new Index and Index Floating Rate Period are not selected by the Board at the end of an Index Floating Rate Period (for a reason other than a court prohibiting such selection), the Index shall remain the same and the Index Floating Rate Period shall be the same length as the current Index Floating Rate Period (or such lesser period to the Maturity Date).

Remarketing in New Index Floating Rate Period

At the end of each Index Floating Rate Period, the Bonds are subject to mandatory tender for purchase as described below under “– Tender for Purchase – *Mandatory Tender for Purchase*.” In connection with such mandatory tender for purchase, the Board may elect to remarket any of the Sub-series of the Bonds in an Index Floating Rate Mode with a newly-established Index Floating Rate Period. In such an event, the Index Floating Rate will be established as described above under “– Interest Rate” and interest will be paid as described above under “– Interest.”

Conversion to Interest Mode Other Than Index Floating Rate Mode

All Bonds need not operate in the same Interest Mode at the same time, provided that the Bonds within each Sub-series shall operate in the same Interest Mode at the same time. The Interest Modes are the Daily Mode, the Weekly Mode the Flexible Mode, the Index Floating Rate Mode, the Term Rate Mode and the Fixed Mode. The following describes how any Sub-series of the Bonds may be converted to bear interest at an Interest Mode other than the Index Floating Rate Mode. If any Bonds are converted to a Short Mode, a Term Rate Mode or a Fixed Mode, the Board will supplement this Official Statement or deliver a new Official Statement or other disclosure document describing the Bonds bearing interest in such Interest Mode.

Conversion to Short Mode. The Board may designate a different Interest Mode with respect to any Bond during an Index Floating Rate Mode on any Business day on or after a date which is six months prior to the end of the then-current Index Floating Rate Period applicable to the Bonds being converted or, upon receipt by the Bond Trustee of an Opinion of Bond Counsel, any other date chosen by the Board at the commencement of such Index Floating Rate Period (a “Par Call Date”).

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, if any, and each Rating Service not later than twenty (20) days before the Adjustment Date, specifying the Interest Mode in which such Bonds will operate during such Adjustment Period and the commencement date of such Adjustment Period; provided that, if such Adjustment Period is a Flexible Mode, the first day following each Rate Period therein must be a Business Day. 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 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 of the mandatory tender for purchase of the affected Bonds on the Adjustment Date.

Term Rate or Fixed Rate Conversion. On or after a Par Call Date, at the direction of the Board, the interest rate to be borne by all or any portion of the Bonds in an Index Floating Rate Mode may be converted to a Term Rate or a Fixed Rate, and such Bonds so converted thereafter will bear interest at such Term Rate or a Fixed Rate until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the Indenture. 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 Term Rate Conversion Date or Fixed Rate Conversion Date at a price of 100% 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 an adverse effect on the validity or enforceability of any Bond, all of which direction, certificate contract and opinion shall be received not less than 25 days prior to the Term Rate Conversion Date or Fixed Rate Conversion Date. The conversion of the interest rate borne by Bonds to a Term Rate or a Fixed Rate will not become effective unless prior to 10:00 a.m., Chicago time, on the applicable Term Rate Conversion Date or Fixed Rate Conversion Date, the Trustee has received an Opinion of Bond Counsel, dated the applicable Term Rate Conversion Date or Fixed Rate Conversion Date, reaffirming its earlier opinion.

At least 20 days prior to the Term Rate Conversion Date or Fixed Rate Conversion Date, the Trustee will give or, as applicable, cause the Remarketing Agent to give written notice of such election by the Board to the registered owners of all Bonds to be converted, which notice will state (i) the Term Rate Conversion Date or the Fixed Rate Conversion Date and (ii) that such Bonds will be subject to mandatory purchase on such Term Rate Conversion Date or Fixed Rate Conversion Date.

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 Term Rate Conversion Date or the Fixed Rate Conversion Date in the same Interest Mode as the Interest Mode applicable to such Bond prior to the proposed Term Rate Conversion Date or the Fixed Rate Conversion Date and at the interest rate as calculated in the manner set forth under the subcaptions “– Interest” and “– Interest Rate,” above.

Tender for Purchase

Optional Tender for Purchase. So long as any of the Bonds are in the Index Floating Rate Mode, such Bonds shall not be subject to optional tender for purchase.

Mandatory Tender for Purchase. Any Sub-series of the Bonds in the Index Floating Rate Mode will be subject to mandatory tender for purchase, at an amount equal to 100% of the principal amount (the “Purchase Price”) of any Bonds purchased on the first Business Day following the last day of the related Index Floating Rate Period (a “Mandatory Purchase Date”), a date which is also an Adjustment Date. In addition to Adjustment Dates on which Bonds in the Index Floating Rate Mode are converted to bear interest in a different Interest Mode, each Adjustment Date on which a then-current Index Floating Rate Period is changed to a new Index Floating Rate Period is also a Mandatory Purchase Date. Interest due on Bonds subject to mandatory tender for purchase will be paid as describe above under “– Interest.” Pursuant to the Indenture, no notice of purchase will be delivered to Owners of Bonds subject to purchase on a Mandatory Purchase Date and no such Owner may elect to retain its Bonds and by acceptance of such Bond shall be deemed to have agreed to deliver such Bond to the Trustee on a Mandatory Purchase Date.

While the Bonds are in the Book-Entry Only System, a beneficial owner must effect delivery of such Bond by causing its 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 Participant on DTC's records to the satisfaction of the Trustee. See "– Book-Entry Only System" below.

Provisions Applicable to Mandatory Tender for Purchase. The Owner of any Bond who has not tendered its Bond for purchase on a Mandatory Purchase Date will be deemed to have tendered its Bond for purchase on such date and to the extent there has been irrevocably deposited in trust with the Trustee or the Trustee's Agent on or prior to the Mandatory Purchase Date an amount of money sufficient to pay the Purchase Price of such Bond on the Mandatory Purchase Date, such Bond shall be deemed to have been so purchased at the Purchase Price as of such date, and such Bond shall no longer be considered to be outstanding for purposes of the Indenture and shall no longer be entitled to the benefits of the Indenture, except for the payment of the Purchase Price thereof (and no interest shall accrue thereon subsequent to the Mandatory Purchase 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 an applicable remarketing agreement;
- (ii) moneys received from the underwriter or purchaser of Tendered Bonds upon the conversion of the interest rate thereon to a Term Rate or a Fixed Rate;
- (iii) proceeds of a Credit Facility, to the extent a Credit Facility is available (*no Credit Facility is available to Bonds while bearing interest in an Index Floating Rate Mode*); and
- (iv) moneys furnished by the Board (at its option) to the Trustee for the purchase or the purchase and cancellation of Tendered Bonds pursuant to the Indenture.

The Trustee's Agent is required to pay the Purchase Price of each Tendered Bond to the registered owner thereof by 2:00 p.m., Chicago time, on the Mandatory 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 p.m., Chicago time, on such date. If funds from the sources identified above shall not be available to purchase a Tendered Bond, such Bond shall be an Unremarketed Bond and the owner shall continue to hold such Bond until such funds are available and the Unremarketed Bond shall bear interest at the interest rate described above under "– Interest Rate." If any such Bonds become Unremarketed Bonds, interest shall be paid on each Interest Payment date as described under "– Interest" above. A failure to pay the Purchase Price of any Sub-series of the Bonds on a Mandatory Purchase Date is not an Event of Default under the Indenture. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE." The Board is not obligated to pay the Purchase Price of the Bonds.

IN THE EVENT THE BOARD IS UNABLE TO REFUND OR REMARKET THE BONDS (INCLUDING REMARKETING THE BONDS IN A NEW INDEX FLOATING RATE PERIOD) AT THE EXPIRATION OF ANY INDEX FLOATING RATE PERIOD, BONDHOLDERS WILL NOT HAVE ANY RIGHT TO TENDER BONDS TO THE BOARD, CAUSE A MANDATORY TENDER OF THE BONDS OR CAUSE AN ACCELERATION OF PRINCIPAL DUE ON THE BONDS.

Redemption

Optional Redemption. Bonds in an Index Floating Rate Mode are subject to optional redemption prior to their maturity at the option of the Board, in whole or in part (and, if in part, in an Authorized Denomination) on any Business Day on or after each Par Call Date at a redemption price equal to 100 percent of the principal amount of Bonds plus accrued interest, if any, to the redemption date. The initial Par Call Date for the Series 2013A-1 Bonds is December 1, 2015, the initial Par Call Date for the Series 2013A-2 Bonds is December 1, 2016 and the initial Par Call Date for the Series 2013A-3 Bonds is December 1, 2017.

Mandatory Sinking Fund Redemption. The Series 2013A-1 Bonds are subject to mandatory redemption prior to maturity, in part, and by lot, at a redemption price equal to the principal amount thereof plus accrued interest, on March 1 of the years and in the aggregate principal amounts set forth in the following table (each constituting a sinking fund installment):

Redemption Dates		Redemption Dates	
(March 1)	Principal Amount	(March 1)	Principal Amount
2014	\$7,685,000	2021	\$10,080,000
2015	7,990,000	2022	10,480,000
2016	8,305,000	2023	10,890,000
2017	8,635,000	2024	11,320,000
2018	8,975,000	2025	11,765,000
2019	9,330,000	2026†	7,455,000
2020	9,695,000		

†Final Maturity

The Series 2013A-2 Bonds are subject to mandatory redemption prior to maturity, in part, and by lot, at a redemption price of equal to municipal amount thereof plus accrued interest, on March 1 of the years and in the aggregate principal amounts set forth in the following table (each constituting a sinking fund installment):

Redemption Dates		Redemption Dates	
(March 1)	Principal Amount	(March 1)	Principal Amount
2024	\$8,040,000	2030	\$10,470,000
2025	8,400,000	2031	10,940,000
2026	8,780,000	2032	11,435,000
2027	9,175,000	2033	11,945,000
2028	9,585,000	2034	12,485,000
2029	10,020,000	2035†	13,045,000

†Final Maturity

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The Series 2013A-3 Bonds are subject to mandatory redemption prior to maturity, in part, and by lot, at a redemption price of equal to principal amount thereof plus accrued interest, on March 1 of the years and in the aggregate principal amounts set forth in the following table (each constituting a sinking fund installment):

Redemption Dates (March 1)	Principal Amount	Redemption Dates (March 1)	Principal Amount
2026	\$4,775,000	2032	\$15,430,000
2027	12,715,000	2033	16,040,000
2028	13,215,000	2034	16,670,000
2029	13,740,000	2035	17,330,000
2030	14,280,000	2036†	18,015,000
2031	14,845,000		

†Final Maturity

Redemption Procedures. No optional redemption of less than all of the Bonds of a Sub-series shall be made unless the aggregate principal amount of Bonds of such Sub-series to be redeemed is equal to \$5,000 or integral multiples thereof, such that not less than \$100,000 of Bonds of such Sub-series remain outstanding after such redemption. Any redemption of less than all of the Bonds of a Sub-series outstanding shall be made in such a manner that all Bonds of such Sub-series outstanding after such redemption are in Authorized Denominations.

In the case of any redemption of Bonds at the option of the Board, the Board shall give written notice to the Trustee of its election or direction so to redeem, of the date fixed for redemption, and of the principal amounts of the Bonds of each maturity to be redeemed. Such notice to the Trustee shall be given at least 35 days prior to the specified redemption date in the case of Bonds called for optional redemption. Pursuant to the Indenture, no notice will be delivered to the Trustee prior to the Bonds being called for mandatory sinking fund redemption. A copy of the notice of the call for optional or mandatory redemption shall be given not less than 30 days prior to the day for redemption to the Owners of the Bonds to be redeemed at their addresses as shown in the Bond Register. In the event notice of redemption shall have been given as provided in the Indenture, (i) there shall be paid on or prior to the specified redemption date to the Trustee an amount in cash and/or Government Obligations maturing on or before the specified redemption date which, together with other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the Bonds to be redeemed on the specified redemption date at their redemption price plus interest accrued and unpaid to the date fixed for redemption; such amount and moneys shall be held in a separate, segregated account for the benefit of the registered owners of the Bonds so called for redemption, or (ii) such redemption notice may state that any redemption is conditional on such funds being deposited on the redemption date, and that failure to deposit such funds shall not constitute an Event of Default under the Indenture.

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

At its option, to be exercised on or before the 60th day next preceding any mandatory sinking fund redemption date for the Bonds (or such shorter period as may be acceptable to the Trustee), the Board may (i) deliver to the Trustee for cancellation, Bonds or portions thereof in Authorized Denominations subject to mandatory sinking fund redemption or (ii) receive a credit in respect of its mandatory sinking fund redemption obligation for Bonds or portions thereof in Authorized Denominations which prior to said date have been redeemed (otherwise than through the operation of such mandatory sinking fund redemption) and canceled by

the Trustee and not theretofore applied as a credit against any mandatory sinking fund redemption obligation. Each such Bond or portion thereof subject to mandatory sinking fund redemption so delivered or previously redeemed shall be credited against future mandatory sinking fund redemption obligations on Bonds in such order as the Board shall designate, or if no such designation is made, in chronological order, the principal amount of such Bonds to be redeemed by operation of such mandatory redemption to be accordingly reduced.

If less than all the Bonds shall be called for redemption under any provision of the Indenture permitting or requiring such partial redemption, the particular Bonds or portions thereof to be redeemed shall be selected by the Board, in the principal amount designated to the Trustee by the Board, which designation shall include the Interest Mode and Maturity Date, or otherwise as required by this Indenture; provided however that, subject to the requirements described above under “– Mandatory Sinking Fund Redemption”, (i) in the case of the redemption of less than all Bonds which bear interest in the same Interest Mode at the same rate for the same Rate Periods, such redemption shall 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 shall be in a principal amount equal to an Authorized Denomination. In selecting Bonds for redemption, the Trustee shall 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 shall forthwith surrender such Bond to the Trustee for (a) payment to such Owner of the redemption price of the integral multiple of the Authorized Denomination of principal amount called for redemption, and (b) delivery to such Owner of 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 shall be issued to the Owner thereof without charge therefor.

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

Notice of the redemption of Bonds or any portion thereof identifying the Bonds or portions thereof to be redeemed shall also specify (i) the series name and designation and certificate numbers of Bonds being redeemed, (ii) the CUSIP numbers of the Bonds being redeemed, (iii) the principal amount of Bonds being redeemed and the redeemed amount for each certificate (for partial calls), (iv) the redemption date, (v) the redemption price, (vi) the Date of Issuance, (vii) the interest rate and Maturity Date of the Bonds being redeemed, (viii) the date of mailing of notices to Owners and information services (if required), and (ix) a telephone number for Owner inquiries with regard to such notice.

Bond Registration and Transfers

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

Book-Entry-Only System

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however,

expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued. See “THE BONDS - General.”

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

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

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

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

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Board or its Agent, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Board or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board, or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

Defeasance

Bonds 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 shall be deemed to have been paid within the meaning of the Indenture and the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board thereunder shall be discharged and satisfied with respect to such Bonds. As a condition to such defeasance of the Bonds, the Board shall have delivered to or deposited with the Trustee (a) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (b) irrevocable instructions to mail the required notice of redemption of any Bonds so to be redeemed, (c) either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide moneys which shall be sufficient, without further reinvestment to pay when due the principal or redemption price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (d) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all registered 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PLAN OF FINANCE

Use of Proceeds of the Bonds

The proceeds from the sale of Bonds, together with certain funds legally available to the Board, will be used to (i) refund all of certain outstanding series of bonds of the Board and (ii) pay the costs of issuance of the Bonds (including the Underwriters' discount).

Refunding of the Refunded Bonds

A portion of the proceeds from the sale of the Bonds will be used to refund all of certain outstanding series of general obligation bonds of the Board, which general obligation bonds were issued to fund a portion of the Board's Capital Improvement Program, or to refund all or a portion of such bonds. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Capital Improvement Program." The general obligation bonds being refunded by the Bonds are collectively referred to herein as the "Refunded Bonds" and consist of: (i) the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009A, (ii) the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009B, (iii) the Unlimited Tax General Refunding Obligation Bonds (Dedicated Revenues), Series 2010A and (iv) the Unlimited Tax General Refunding Obligation Bonds (Dedicated Revenues), Series 2010B.

To provide for the refunding of the Refunded Bonds, certain proceeds of the Bonds will be deposited with the trustees for the Refunded Bonds to provide for the defeasance of the Refunded Bonds and their redemption at par plus accrued interest on or about June 17, 2013. Portions of the funds deposited with the trustees for the Refunded Bonds will be used to purchase U.S. Treasury Obligations (the "Government Securities"), the principal of which, together with the initial uninvested cash balance, will be sufficient to pay (i) the interest on the Refunded Bonds to their redemption date and (ii) the principal or redemption price, as applicable, of the Refunded Bonds on the redemption date. Neither the cash on deposit nor the maturing principal of the Government Securities purchased to refund the Refunded Bonds or the interest earned thereon will serve as security or be available for the payment of the principal of or interest on the Bonds.

Upon the deposit of the cash and Government Securities with the trustees of the Refunding Bonds as described above, the pledge of the respective trust estates established under the indentures pursuant to which the Refunded Bonds were issued, including the pledges of General State Aid payments thereunder, will be discharged and satisfied and such Refunded Bonds will no longer be entitled to any lien or security under the indentures.

Future Financings

The Board may issue additional bonds, from time to time, to continue implementation and funding of the Capital Improvement Program and to refund outstanding bonds of the Board. Consistent with applicable provisions of State law, the Board has the authority to adopt additional authorizing resolution(s) under which some of these bonds may be issued. See "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Capital Improvement Program."

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Estimated Sources and Uses of Funds

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

<u>Estimated Sources:</u>	<u>Series 2013A-1 Bonds</u>	<u>Series 2013A-2 Bonds</u>	<u>Series 2013A-3 Bonds</u>	<u>Totals</u>
Principal amount of the Bonds	\$122,605,000.00	\$124,320,000.00	\$157,055,000.00	\$403,980,000.00
Initial Board Funds	<u>600,527.72</u>	<u>635,689.44</u>	<u>721,782.84</u>	<u>1,958,000.00</u>
Total Estimated Sources of Funds	\$123,205,527.72	\$124,955,689.44	\$157,776,782.84	\$405,938,000.00
<u>Estimated Uses:</u>				
Refunding of Refunded Bonds ²	\$122,605,000.00	\$124,320,000.00	\$157,055,000.00	\$403,980,000.00
Costs of Issuance Fund ¹	<u>600,527.72</u>	<u>635,689.44</u>	<u>721,782.84</u>	<u>1,958,000.00</u>
Total Estimated Uses of Funds	\$123,205,527.72	\$124,955,689.44	\$157,776,782.84	\$405,938,000.00

¹ Includes estimated costs of issuance and the Underwriters' fee.

² Reflects refunded principal amounts. Accrued interest due on the Refunded Bonds will be paid from other available sources.

SECURITY FOR THE BONDS

General

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

The Bonds will be payable from and secured by a pledge of (i) State Aid Revenues, which are payments received by the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future, in amounts each year as shall provide for the payment of the Bonds and the provision of not less than an additional 0.10 times such amounts in such years (the "Pledged State Aid Revenues"), (ii) the *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "Pledged Taxes"), (iii) all moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture except Costs of Issuance Account, and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged State Aid Revenues are not available in sufficient amounts to pay the debt service on the Bonds. See "— Pledged Taxes" and "— Debt Service Fund and Accounts," 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.

Further financial information regarding the State of Illinois may be obtained at the website www.capitalmarkets.illinois.gov. None of the information on this website is incorporated by reference into this Official Statement and neither the Board nor the Underwriters take responsibility for the information contained therein nor have they attempted to verify the accuracy of such information.

In fiscal year 2013, the Board expects to receive \$1,078 million in GSA, with an additional payment of \$16.3 million in expected adjustments on prior-year GSA allocations, based on property tax funds that were subsequently reduced after the taxpayer filed a successful property tax appeal. Of the \$1,078 million in GSA, the amount of \$261.0 million must be appropriated directly to schools within the School District based on the number of low-income students, consistent with State statute.

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 2003 through 2013, 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 2003 – 2013 (Dollars in Millions)			
Fiscal Year	Total GSA Claim⁽¹⁾	Supplemental General State Aid Allocation	Unrestricted GSA General Fund Deposit⁽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	1,120.2	261.0	859.2
2013 ⁽³⁾	1,078.4	261.0	817.4

(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) Reflects budgeted amount.

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 the foundation level (i.e. dollar level of financial support per student representing the combined total of state and local resources available), 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 and fiscal year 2013, the foundation level is set at \$6,119. The poverty grant depends on the school district’s Department of Human Services low-income count for the fiscal year under consideration.

Even though GSA payments are calculated according to the formulas summarized above, they are also subject to appropriation by the General Assembly. Therefore, because the General Assembly did not appropriate sufficient funds to fully cover the GSA payment during fiscal year 2012 each school district received only 95% of the GSA claim for such fiscal year. The Board expects to receive 89.1% of the GSA claim in fiscal year 2013. The fiscal year 2012 funds received by the Board and the fiscal year 2013 budget discussed below reflect these respective amounts.

Because receipt of GSA payments are subject to appropriation by the General Assembly, they are consequently subject to the availability of sufficient revenues to the State of Illinois and competing obligations and spending priorities of the State of Illinois. The Board cannot predict that such revenues, obligations and spending priorities will result in the Board receiving the full value of its GSA payments in any given year.

In calculating GSA, the State employs a formula consisting of a number 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 and corporate personal property replacement 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”).

Payments of appropriated amounts of GSA from the State have consistently been received by the Board on time over the last 10 years.

Pledged Taxes

The Board has levied the Pledged Taxes to satisfy the debt service on the Bonds if the 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. The County Collectors will deposit the amount so segregated directly with the Trustee for application to the payment of debt service on the Bonds in accordance with the provisions of the Indenture. All Pledged Taxes received by the Trustee shall be (i) deposited promptly upon receipt into the Pledged Taxes Account described under “– Debt Service Fund and Accounts,” below and (ii) applied to the payment of the interest on and principal of the Bonds due during the calendar year in which such Pledged Taxes are collected. The Board has covenanted in the Indenture to take all actions necessary to cause the levy and extension of additional Pledged Taxes in excess of those previously levied if necessary to pay debt service on the Bonds. For additional information concerning the levy and collection of the Pledged Taxes, see “THE REAL PROPERTY TAX SYSTEM – Real Property Assessment, Tax Levy and Collection Procedures.”

Debt Service Fund and Accounts

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

Pledged State Aid Revenues Account. The Trustee shall deposit to the credit of the Interest Deposit Sub-Account (i) any amounts paid by the Board to the Trustee from time to time with instructions for such deposit and (ii) any payments made by Swap Providers, if any, under Swap Agreements to the extent set forth in a certificate of a Designated Official filed with the Trustee. The Board is not entering into any new interest rate swap agreement in connection with the issuance of the Bonds, but will be applying the interest rate swap agreements applicable to the Refunded Bonds to each Sub-series of the Bonds (or portion thereof). See “BOARD OF EDUCATION OF THE CITY OF CHICAGO — Board’s Interest Rate Swap Agreements. All or a portion of such amounts so deposited to the credit of the Interest Deposit Sub-Account shall be transferred no later than the next succeeding Interest Payment Date to the Interest Sub-Account and applied to pay up to the amount of interest then due on the Bonds on such Interest Payment Date as described under “ – Bond Payment Account” below.

On or before February 15 of each year, beginning February 15, 2014, or such earlier date as may be necessary to permit the Board to lawfully make the abatement of the Pledged Taxes with respect to the Bonds as described below (each such date being referred to as a “Deposit Date”), the Board shall deposit to the credit of the Pledged State Aid Revenues Sub-Account such amounts derived from Pledged State Aid Revenues as shall be necessary and sufficient to cause the amount on deposit in said Sub-Account to equal the sum of the interest on and principal of the Bonds that will come due and payable, whether at maturity or upon mandatory sinking fund redemption, during such Bond Year (the “Annual Debt Service Requirement”). Once such deposit has been made, the Board shall take such actions as are necessary to abate in full the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date. The Board shall make the deposit required pursuant to this paragraph on such earlier date as may be necessary in the future to permit the Board to make the abatement of taxes described in the preceding sentence.

In computing the amount of the Annual Debt Service Requirement, the Indenture requires calculation of interest at an interest rate equal to the greater of (x) 4.50% or (y) the actual weighted average interest rate borne by the 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 the Bonds in the Index Floating Rate Mode on such Deposit Date from the first day of the next succeeding Bond Year to the Interest Payment Date for such Bonds; provided, however, that for any period of time during the next succeeding Bond Year for which a Swap Agreement is in place with respect to any Bonds requiring the Board to pay a fixed rate of interest, such amount shall be increased or decreased, as appropriate, giving effect to the known fixed rate of interest to accrue with respect to such Swap Agreement for such period of time during the next succeeding Bond Year that such Swap Agreement shall be in effect and any known mismatch between the Bond rate and the rate paid to the Board under such Swap Agreement.

On the date of issuance of the Bonds, the Board will deposit, from funds on deposit with the trustees of the Refunded Bonds, or from its own funds, into the Pledged State Aid Revenues Sub-Account under the Debt Service Fund in the Indenture an amount of Pledged State Aid Revenues necessary and sufficient to cause the amount on deposit in said Sub-Account to equal the Annual Debt Service Requirement for the 2013 Bond Year, net of such payments made during that Bond Year.

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

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

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 Bond Payment Account and to the Swap Payment Account (if any), shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture, which withdrawal shall be made prior to any deposit to the Pledged State Aid Revenues Sub-Account described in the fifth preceding paragraph.

Bond Payment Account. The Trustee shall deposit to the credit of the Interest Sub-Account any amounts directed by the Board to be deposited into such Sub-Account. The Trustee shall also transfer, from time to time, to the credit of the Interest Sub-Account all other amounts so directed by the Board to be transferred into such Sub-Account.

There shall be transferred *first* from moneys on deposit in the Pledged Taxes Account, *second* from moneys on deposit in the Interest Deposit Sub-Account, and *last* from moneys on deposit in the Pledged State Aid Revenues Sub-Account; (i) first, to the Interest Sub-Account on or before each Interest Payment Date for any of the Outstanding Bonds, the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; (ii) second, to the Principal Sub-Account on or before the Business Day next preceding each March 1 an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on such date; (iii) third, to the Principal Sub-Account on or before the Business Day next preceding each March 1 on which Bonds are subject to mandatory sinking fund redemption, the amount required for the payment of the redemption price of such Bonds then to be redeemed.

Swap Payment Account. After deducting the amount required to be transferred to the Principal Sub-Account on the next succeeding March 1 and provided the Board is not in default with respect to the payment of interest on the Bonds, there shall be transferred into the Swap Payment Account on each date specified in the relevant Swap Agreement which the Board shall identify in a written notice delivered to the Trustee (each, a "*Swap Payment Date*"), first, from moneys on deposit in the Pledged Taxes Account, second from moneys on deposit in the Interest Deposit Sub-Account, and last from the Pledged State Aid Revenues Sub-Account, an amount equal to the sum of the Swap Payment then owing under such Swap Agreement on such Swap Payment Date. The Trustee shall pay each Swap Provider on each Swap Payment Date from amounts then on deposit in the Swap Payment Account pursuant to payment instructions specified in the relevant Swap Agreement and provided to the Trustee and the Board by such Swap Provider. On or prior to March 1, 2014 and each March 1 thereafter, the Board shall provide the Trustee with written notice of the amount of each Swap Payment owing to such Swap Provider on each Swap Payment Date for the succeeding Bond Year. The Board shall promptly notify the Trustee in writing if the amount of any Swap Payments shall change from the amounts identified in such notice. Notwithstanding anything in the Indenture to the contrary, all payments of Swap Payments to be paid from Pledged Taxes shall be subordinate to the payment of principal of and interest on the Bonds and all payments of Swap Payments to be paid from Pledged State Aid Revenues shall be subordinate to the payment of principal of and interest on the Bonds and any Additional Bonds.

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged State Aid Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture, with the exception of the Swap Payment Account, are pledged to the payment of the Bonds. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Additional Bonds Payable From Pledged State Aid Revenues

Alternate Bonds payable from the Pledged State Aid Revenues available under the Authorizations described under “INTRODUCTION – Prior Authorization Bonds and Additional Bonds,” maybe issued in the future by the Board. See “SECURITY FOR THE BONDS – General” and “– General State Aid.” The Prior Authorization Bonds are the only Alternate Bonds currently outstanding under the Authorizations. Pursuant to the Debt Reform Act, the ability under each of the Authorizations to issue new Alternate Bonds, other than to refund Alternate Bonds previously issued under any of such Authorizations, has expired.

Pursuant to the Indenture, the Board reserves the right to issue Additional Bonds from time to time payable on a parity with the Bonds from all or any portion of the Pledged State Aid Revenues available under the respective Authorizations or any other source of payment which may be pledged under the Debt Reform Act, and any such Additional Bonds shall share ratably and equally in the Pledged State Aid Revenues with the applicable Prior Authorization Bonds and the Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. Subject only to compliance with such provisions of the Debt Reform Act, there is no limit on the aggregate principal amount of Additional Bonds, which may be issued by the Board.

Pursuant to the Indenture, the Board also 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 Pledged State Aid Revenues Sub-Account under the Indenture applicable to the Bonds during such year.

Other Indebtedness

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

Bonds Are Obligations of the Board

The Bonds are the direct and general obligations of the Board to the payment of which the Board has pledged its full faith and credit and taxing power. The Bonds are not the obligations of the City of Chicago, 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 of Chicago, the State or any other political subdivision of the State (other than the Board) is pledged to the payment of the Bonds.

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

The Board is a body politic and corporate 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

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 re-elected the President of the Chicago Board of Education on July 25, 2012. 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 Global Affairs. Mr. Vitale is a graduate of Harvard University and earned an MBA from the University of Chicago.

Jesse H. Ruiz was re-elected Vice President of the Chicago Board of Education on July 25, 2012. Mr. Ruiz previously served as Chairman of the Illinois State Board of Education. Mr. Ruiz is a partner at the law firm of Drinker Biddle & Reath LLP firm, where he is a member of the Corporate and Securities Group and co-chair of the firm’s Diversity Committee. He concentrates his practice on mergers and acquisitions and the representation of public and middle market companies. Mr. Ruiz recently served on 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 is past President of the Hispanic Lawyers Association of Illinois and the past Chairman of the Hispanic Lawyers Scholarship Fund of Illinois and Chicago Committee on Minorities in Large Law Firms. Mr. Ruiz 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.

Dr. Carlos M. Azcoitia currently serves as Distinguished Professor of Practice in Educational Leadership at National Louis University. From 2011-2012, he oversaw and supported thirty-six schools in his role as Interim Chief of Midway Network in Chicago Public Schools. Previously, from 2003-2007, Dr. Azcoitia served as the founding principal of John Spry Elementary Community Links High School in the Little Village community, which is the first school in Chicago to include a pre-kindergarten through high school program in one building and sets high goals for student success; aiming for a 100% high school and college graduation. Before he founded John Spry Elementary Community Links High School, Dr. Azcoitia served as the Deputy Chief of Education at Chicago Public Schools (1996-2003), where he was responsible for managing wide-ranging departments, programs and services. He began his career as a teacher at Kosciuszko School, teaching 7th and 8th grades (1974-1982). He also serves as the Chair of the Board of Trustees at Northeastern Illinois University, as a Steering Committee Member of the Coalition of Community Schools, and a member of the Board of Directors of the Chicago High School for the Arts and Ignatian Spirituality Center in Miami, FL. Dr. Azcoitia received his Doctorate in Education from Northern Illinois University, his Masters of Education from National Louis University and his Bachelor's degree from the University of Puerto Rico.

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 Chicago Council on Global Affairs and serves on its executive committee, and chairs both the Board of Trustees of Ithaca Harbors and the Board of Directors of Rasmussen College. 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.

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:

<u>Member</u>	<u>Term Expires</u>
David J. Vitale, President	July 1, 2014
Jesse H. Ruiz, Vice President	July 1, 2014
Dr. Carlos M. Azcoita	June 30, 2015
Henry S. Bienen	June 30, 2015
Dr. Mahalia A. Hines	July 1, 2014
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. Currently, there is one vacancy on the School Board.

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.....	Barbara Byrd-Bennett
Chief Administrative Officer.....	Timothy Cawley
Chief Financial Officer.....	Peter W. Rogers
General Counsel.....	James L. Bebley

Barbara Byrd-Bennett is the Chief Executive Officer of the Board, appointed on October 12, 2012. A former teacher and principal, Ms. Byrd-Bennett is a lifelong educator with experience running schools and districts in New York City, Detroit and Cleveland.

Previously, Ms. Byrd-Bennett served as the Chief Education Advisor, where she oversaw the development of curriculum and instructional policy for the Board and helped guide the Board's school and neighborhood administrators, from network chiefs to principals. She also played an integral role in guiding the Board during contract negotiations with the CTU.

Byrd-Bennett has over 30 years of experience working in schools. She began as a teacher in the New York City public school system. After 12 years in the classroom, she became a principal and held that position for 8 years. In 1994, she was appointed to serve as the superintendent of the Crown Heights school district, the third-largest school district in New York City. Following her tenure in New York City, Ms. Byrd-Bennett spent over 10 years leading large urban public school districts, first in Cleveland (1998-2006) and then in Detroit (2009-2011). As the Chief Executive Officer of the Cleveland public school system, she successfully balanced the school district's budget each year of her tenure after inheriting a more than \$150 million deficit. In Detroit, as the district's Chief Academic and Accountability Auditor, she worked side-by-side with the district's

emergency financial manager where she helped implement a plan to restore the District's financial and educational stability.

Ms. Byrd-Bennett holds a Master's of Science from Pace University, a Master's of the Arts from New York University and a Bachelor's of the Arts from Long Island University. Ms. Byrd-Bennett also holds honorary doctorate degrees from Cleveland State University, Baldwin-Wallace College, John Carroll University and the University of Notre Dame.

Timothy Cawley is the Chief Administrative Officer of the Board, appointed on May 17, 2011. 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.

Peter W. Rogers is the Chief Financial Officer of the Board, appointed on September 25, 2012. Mr. Rogers has served as a President, Chief Executive Officer, as a member of Boards of Directors and as a strategic adviser. Most recently, as President and CEO of Diners Club International, he led a network of 90 country franchise business units, the majority of which were owned by leading financial institutions. Previously he held the position of Executive Vice President-Regional Marketing Director of Citibank's European, Middle East and Africa Division, based in London, along with management positions for both Wilson Sporting Goods and Proctor and Gamble. Mr. Rogers is a graduate of Harvard College and received his MBA from Harvard Business School.

James L. Bebley is the General Counsel of the Board, appointed on July 1, 2012. Previously he served as First Deputy General Counsel and as Deputy General Counsel for Finance and Budget. Mr. Bebley's 27 years of experience includes practice at Ice Miller in Chicago where he concentrated on economic development and municipal finance and acted as bond counsel, issuer's counsel and underwriter's counsel for tax-exempt bond issues, and Carney & Brothers, where he handled transactional matters and assisted in developing the firm's municipal finance group. He also served at the City of Chicago's Law Department and the Office of the Mayor. Mr. Bebley is a graduate of Daniel Hale Williams Elementary School and Robert Lindblom Technical High School, both in the Chicago Public School system. He earned his Bachelor of Science in Finance from the University of Illinois (Urbana-Champaign) College of Commerce and Business Administration in 1982 and his Juris Doctorate from the College of Law in 1985.

School System

The Chicago Public School system consists of 681 attendance centers consisting of 473 elementary schools, 106 high schools and 102 charter or contract schools serving 403,461 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
2012/2013	291,062	112,399	403,461
2011/2012	290,278	113,873	404,151
2010/2011	289,045	113,636	402,681
2009/2010	293,509	115,770	409,279
2008/2009	294,878	113,166	408,044

Capital Improvement Program

The Board's Capital Budget addresses the most critical infrastructure needs, including areas of health and safety, as well as key capital priorities designed to support student achievement. The Capital Budget balances addressing the Board's most pressing necessities while remaining fiscally prudent, given the Board's limited resources.

The Capital Budget is assembled as part of the School District's Five-Year Capital Plan, Ten-Year Master Education Facility Plan, and Public Act 097-0474. The proposed Five-Year Capital Plan, released on May 1, 2013, details specific projects the Board plans to carry out through 2018. The proposed Five-Year Capital Plan, as well as project level detail for the proposed fiscal year 2014 Capital Budget and fiscal year 2013 Supplemental Capital Budget (see School Actions and fiscal year 2013 Supplemental Capital Budget below) can be found at www.cps.edu/capitalplan.

Combined with \$900 million in capital projects already in progress from fiscal year 2013 and prior years, there are nearly 220 projects planned or under way to address the needs of hundreds of schools throughout the School District. The fiscal year 2013 Capital Budget totaled \$110 million and was expected to be funded by a combination of Board resources (\$69 million), Chicago Infrastructure Trust funds (\$40 million) and outside grants (\$1 million). The fiscal year 2013 Supplemental Capital Budget totals \$364 million, and is expected to be funded by a combination of Board resources and Tax Increment Financing revenues to be received from the City of Chicago. The proposed fiscal year 2014 Capital Budget totals \$161.8 million, and is expected to be funded by Board resources.

The fiscal year 2013 Supplemental Capital Budget includes \$155 million for investments in welcoming schools, as described below under "– School Actions." Remaining funds will go toward investments in new co-located schools, Office of Strategic Support Services schools, new common core textbooks, facilities upgrades to accommodate the expansion of full-day kindergarten and a new food service point-of-sale system.

In addition to the new projects included in the fiscal year 2013 Supplemental Capital Budget and proposed fiscal year 2014 budget, the capital budget also reflects continuing projects from the fiscal year 2010-2012 capital budgets, as well as the Modern Schools Across Chicago program. Modern Schools Across Chicago is a joint plan between the City of Chicago (the "City") and the Board of Education to build 24 new schools and renovate three others across the City. The \$1.2 billion plan was funded primarily through City tax incremental financing dollars and proceeds of bonds issued by the Board between 2007 and 2010. It brings nine new high schools, fifteen new elementary schools and three high school renovations to neighborhoods across the City.

School Actions

The Board recently established the Commission on School Utilization (the "Commission"), an independent body that facilitates community conversations to study the School District's current state, engage community members and gather input on how to improve the School District's schools, and to make recommendations on how best to address the financial challenges facing the School District. The Commission also provided a written report to guide the Board in making recommendations around space utilization and school actions. The statutory deadline to announce school actions for the current school year was March 31, 2013, which gave the Commission time to rigorously engage the community, gather data and provide recommendations regarding school closures and consolidations. To ensure ongoing rigorous community engagement, guidelines will be created with the involvement of local school councils, parents, teachers and community organizations. It is expected that draft guidelines will be published by October 1 of each year.

Based on the Commission's report for the current school year, Board staff is recommending that the Board close 54 underutilized schools and programs, co-locate 11 further schools and implement turnarounds in

6 other schools. The Board is expected to consider these recommendations at its May 22, 2013 meeting. By redirecting resources from closing underutilized facilities, the Board will be able to provide students from those schools being close or co-located with access to better performing educational options close to their current school.

As part of this process, on April 24, 2013, the Board adopted a supplemental capital budget that includes an upfront investment of \$155 million in welcoming schools to provide children with the resources they need to thrive in the classroom. CPS anticipates that consolidating underutilized schools will allow resources to be redirected so that investments in every welcoming school by the fall of 2013 provide every child entering these schools access to a high-quality education that prepares them to succeed.

The fiscal year 2013 Supplemental Capital Budget includes funding for investments that will provide access to enhanced learning environments at welcoming schools, including:

- Air conditioning in every classroom
- A library in every school
- iPads for all students in grades 3-8
- New and upgraded technology supports including expanded Internet bandwidth
- Enhanced safety technology, such as cameras and entry screening equipment
- Improved ADA accessibility
- Upgraded facilities and cosmetic improvements, including fresh paint, masonry work, new windows, new ceilings and floors, and others
- Improved food service capacity through enhanced lunch rooms and food services as needed to accommodate and service the new welcoming school student body

In addition to the improvements funded in the fiscal year 2013 Supplemental Capital Budget, the Board is finding other options to ease the acclimation of transitioning students to their new schools. Principals of welcoming schools will receive a “Welcoming School Fund,” consisting of discretionary resources to select programs and services to help welcoming school students transition. Examples of such programs include:

- Academic supports such as tutoring, instructional coaches and intervention software
- Student engagement to provide student mentoring and leadership opportunities, joint field trips, and welcoming week activities
- Social and emotional supports for counseling and social work resources, and training on assisting students with coping skills and managing stress

Litigation has recently been filed by a group of parents with respect to the Commission’s report and the related recommendations of Board staff being considered by the Board. See the discussion under the heading “LITIGATION.”

Educational Reform Initiatives

The Board’s vision is that every Chicago Public School student in every neighborhood will be engaged in a rigorous, well-rounded instructional program and will graduate prepared for success in college, career and life. Five strategic pillars outline the core work planned to boost student achievement throughout the School District.

Pillar 1 – High Standards, Rigorous Curriculum and Powerful Instruction: Objectives include the following:

- Implement the Common Core State Standards with fidelity in grades K-12 in a performance-driven system characterized by a common curriculum, a common definition of effective instruction, high-quality tools and professional development to support teachers in the classroom and performance benchmarks that help monitor student progress towards proficiency.
- Increase access to early childhood education.
- Establish a School District-wide high school course of study aligned with graduation requirements that defines the specific courses, course content, and level of performance required for college and career success.
- Ensure that students with diverse learning needs have meaningful access to core curriculum subjects and receive high-quality instructional resources and appropriate supports and services in the least restrictive environment.
- Establish bilingual and multilingual policies and instructional programs that are of high quality, comply with all state and federal requirements, and demonstrate respect for the linguistic and cultural diversity of learners.
- Implement age- and grade-appropriate curricula for physical, health, nutrition and sexual health education that is integrated into core subjects.
- Increase equity of access to a high quality arts education in all four art forms (visual, music, dance, and drama) for every student from Pre-K through 12th grade as outlined in the Board's Arts Education Plan.
- Expand and enhance proven high-quality school models and programs that engage and accelerate students on the path to college and career success – such as International Baccalaureate (IB), Early College, Career and Technical Education (CTE), Science, Technology, Engineering and Math (STEM), Arts, and World Language.
- Increase out of school time opportunities and participation as part of providing students access to a well-rounded instructional program.

Pillar 2 – Systems of Support that Meet Student Needs: Every student is unique, and high expectations for all students must be coupled with a holistic approach that supports the individual needs of each. All students need special attention to grow both personally and academically. Specific objectives are as follows:

- Ensure that every school in the School District is a safe, secure, orderly, drug-free environment for learning.
- Establish a universal standard for a positive learning climate that makes students feel valued, challenged and supported.
- Implement a system of health and wellness services that increases awareness of health-related barriers to learning and identifies and delivers targeted support for students and their families to address such barriers.
- Develop an attendance support system that drives student engagement and achievement, including targeted interventions and family and community partnerships to promote good attendance.
- Establish a multi-tiered system of supports (MTSS) in every school – both academic and behavioral – that provides struggling students with additional targeted interventions to ensure success, and that ensures all students have access to grade-level core content through strong differentiated instruction.
- Establish college and career guidance systems as well as university and workforce partnerships that provide every student graduating with a concrete postsecondary plan.

- Expand and improve educational options for students who are out of school or at risk of dropping out, while implementing School District-wide systems that facilitate drop-out prevention and recovery.
- Provide timely and targeted School District-wide support to academically underserved neighborhood schools, leveraging Board resources based on school needs.

Pillar 3 – Engaged and Empowered Families and Community: Effective schools guide families to support children’s learning at home and draw on the talents of parents as volunteers. School and district leaders must draw on all the resources of our city and neighborhoods: parents, nonprofits and businesses, universities and community groups, faith-based leaders and government officials, philanthropists and activists. Specific objectives include the following:

- Engage neighborhoods in shaping a vision for education, including a 10-year education facilities master plan.
- Empower families with the information and tools to support childrens’ learning at home and school.
- Improve services that help parents to navigate the Board, such as rapid response call lines to answer time-sensitive questions and Parent Engagement Centers to provide information about Board schools, programs and services, a mechanism to file complaints, and the opportunity to use computers and attend parent workshops.
- Increase equity of access to high-quality school options by establishing a streamlined, single high school application system.
- Prepare Local School Councils (LSCs) to become effective leaders, advocates and innovators.
- Support principals to strengthen family and community engagement at the school level.
- Strengthen community partnerships at the district level, i.e., partner with community stakeholders (religious organizations, community based organizations, businesses, universities, government agencies) to support building strong schools and communities throughout the School District.

Pillar 4 – Committed and Effective Teachers, Leaders and Staff: The Board must support a culture of collective responsibility, high performance and continuous improvement by helping employees understand their role in meeting system-wide goals and supporting them to succeed and grow in their daily practice. Specific objectives are as follows:

- Design and implement a process to identify, prioritize, and attract high quality talent system-wide.
- Design and implement a comprehensive performance evaluation process and system for all employees that requires them to deliver results – not simply comply with requirements – and supports their professional growth.
- Create a comprehensive system of teacher support that provides ongoing professional development in content areas, pedagogy, and leadership.
- Design and implement a system to induct and support new leaders (Principals, Networks, Assistant Principals, Central Office, Teacher Leaders), and provide ongoing, differentiated professional development for experienced leaders, as well as appropriate skills and capacity building for all employees.
- Construct and implement a high-visibility recognition platform for top performers, tying rewards and recognition to performance, and empower great leaders with autonomy to innovate and a platform to share best practices School District-wide.
- Create deep connection and meaningful understanding of the Board District’s vision, strategy, priorities, actions and success through robust, compelling, and frequent employee communication, engagement, and feedback loops.

Pillar 4 also includes the Principal Quality Initiative (“PQI”), which aims to place a high-performing principal in every school given the critical role that principals play in improving student academic achievement. The PQI has established five critical levers that are embedded throughout Pillar 4 objectives:

- *Chicago Leadership Collaborative*: Partnership with four external program partners to provide year-long internships to aspiring principals.
- *Leadership Development and Training*: Provide leadership training and support for new and incumbent principals through the Chicago Executive Leadership Academy.
- *Principal Eligibility*: A more rigorous principal candidate assessment process to maximize the probability of success in the principalship.
- *Principal Evaluation*: Provide clear performance standards for all CPS school leaders.
- *Principal Achievement Awards*: Incentivize and recognize the district’s highest performing school leaders.

Pillar 5 – Sound Fiscal, Operational and Accountability Systems: Board financial, operational and accountability systems must be driven by priorities leading to student success. Every employee should be held accountable for his/her contribution to student outcomes, and all team members must be provided with useful data and guidance allowing them to effectively work toward these goals. Specific objectives include the following:

- Develop an education facilities master plan that is driven by a ten-year neighborhood vision of the types of schools and programs residents want and maintains the optimal number of seats to serve students efficiently while assuring adequate funding.
- Safely transition children from schools undergoing consolidation to a higher-quality learning environment in their welcoming schools.
- Establish a common definition of school quality and a comprehensive school accountability system.
- Provide relevant and timely data and reports to all stakeholders (teachers, staff, parents, administrators) in order to ensure transparency, facilitate informed decision-making and enable targeted student development.
- Create long-term financial plans that focus on priorities, eliminate waste, drive a balanced budget and ensure financial stability.
- Create a school funding process – student-based budgeting – that is equitable and provides maximum flexibility for principals to meet student needs.
- Develop a detailed operating plan by department that is tied to strategic, fiscal, and policy priorities, and design and implement a robust management routine inclusive of performance vs. goals (e.g., progress toward key initiatives and benchmarks, budget vs. actuals, etc.) and data-driven decision-making, in order to implement the Board’s vision with fidelity.

Early Childhood Education Initiatives

In February, 2013, the Mayor and the Board announced that for the first time, every Board school will offer full-day kindergarten starting in the next school year. Over the past two years the Board has steadily expanded access to full-day kindergarten, adding 6,000 additional seats, bringing the total number of students with access to full-day kindergarten up to 26,500. With this change, the Board will move from guaranteeing only a half-day kindergarten in elementary schools to guaranteeing a full-day for the approximately 30,700 children entering the School District each year. Central office cuts will allow the Board to expand full day kindergarten across the city – by reducing overtime and making more efficient use of outside contracts for facilities management, and by implementing utility efficiencies related to renegotiation of energy rates, CPS expects to realize more than \$15 million in savings in fiscal year 2014.

In April, 2013, the Mayor announced that over 2,300 additional children across the city will have access to new, high-quality early learning program opportunities and wrap-around services associated with these programs starting in the fall of 2013. In addition to that investment, an overhaul of the process for reviewing and allocating funding for these programs was also announced. As a result of this new process, 724 schools and community-based provider locations will be funded to provide high-quality early learning programs starting in the fall of 2013, serving approximately 44,600 children between the ages of 0-5. The vast majority of these locations are based in community organizations or schools; 95 of these locations are run by faith-based organizations and six will be in charter schools. Also beginning in 2013, families who are not eligible for free and reduced price lunch will be asked to contribute a co-payment on a sliding fee scale to participate in Board school-based programs.

Chicago Teachers' Union and Other Employee Groups

For its 2012 fiscal year, the Board employed approximately 45,000 persons. Approximately 86% of the Board's employees are represented by seven unions that engage in collective bargaining with the Board. As of July 1, 2012, approximately 62% of the Board's employees were represented by the Chicago Teacher's Union ("CTU") and approximately 24% were represented by six other unions.

The Board's collective bargaining agreements with the seven labor organizations that represent Board employees expired on June 30, 2012. The Board has reached collective bargaining agreements with six of the seven labor organizations, and each of those labor organizations has ratified the tentative collective bargaining agreements. The collective bargaining agreements provide teachers to receive a 3% Cost of Living Adjustment ("COLA") in year one of the agreement, and a 2% COLA in each of years two and three. The collective bargaining agreements provide Professional and School Related Personnel ("PSRP") to receive a 2% COLA for each of the three years. On October 24, 2012, the Board ratified the tentative agreement with the CTU. The new collective bargaining agreements expire on June 30, 2015. The new collective bargaining agreements give the Board the right to offer the CTU an extension of their terms to June 30, 2016, which the CTU will have the option to accept or reject.

The one bargaining unit without a tentative collective bargaining agreement is the International Union of Operating Engineers Local 143b. The membership consists of less than 50 employees. The Board and that bargaining unit continue to work on reaching a tentative collective bargaining agreement for ratification by the Board and the unit.

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.

On June 13, 2011, Illinois Governor Pat Quinn signed into law Senate Bill 7 (Public Act 097-0008) ("P.A. 97-8"). P.A. 97-8 amends a section of the Illinois Pension Code, numerous sections of the Illinois School Code and sections in the Illinois Educational Labor Relations Act ("IELRA").

P.A. 97-8 amends IELRA to provide that if the Board and the CTU fail to reach an agreement after a reasonable period of mediation on a collective bargaining agreement, the dispute will be submitted to a fact-finding panel to help resolve the impasse. It also amends IELRA to include procedures for this fact-finding panel process.

P.A. 97-8 amends IELRA with respect to CPS teachers and their strike rights in three key ways. First, CPS teachers may not engage in a strike where mediation has been used without success and if an impasse has

been declared, unless at least 14 days have elapsed after the final offer has been made public. Second, if fact-finding was invoked, CPS teachers may not engage in a strike until at least 30 days has elapsed after a fact-finding report has been released to the public. Third, CPS teachers may not strike until at least 75% of all bargaining unit members of CTU have voted to authorize the strike.

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

Overview of Board’s Fiscal Year 2013 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.

By law, the Board must adopt a budget no later than 60 days after the beginning of its fiscal year. In each of the past five years, the Board has approved the current year’s annual budget in August of that year.

On August 22, 2012, the Board passed its fiscal year 2013 budget. At that time, agreement with the CTU was pending and management indicated that an amended fiscal year 2013 budget would be brought before the Board to reflect any adjustments needed to implement an agreement with CTU. In early October, the CTU ratified a new collective bargaining agreement with CPS and subsequently, CPS released an amended fiscal year 2013 budget. The Board adopted the amended fiscal year 2013 budget at its November 14, 2012 meeting. The Table below reflects the amended fiscal year 2013 budget.

The amended fiscal year 2013 budget includes \$4,800.5 million in revenues and \$5,232.3 million in expenditures, leaving a gap of \$431.8 million to be funded through fund balance. The Board has proactively taken actions to reduce expenditures, such as reforming its sick and vacation day policy, instituting a hiring freeze on non-instructional employees at the Central Office (effective July 1, 2012), and minimizing capital investment wherever possible in order to achieve this cost-control while simultaneously investing in priorities that focus on enhanced student achievement. The budget reflects other actions to reduce expenditures that total \$177 million and includes the estimated \$103 million to cover the incremental CTU contract costs in fiscal year 2013. During the course of fiscal year 2013, the Board has proactively identified mid-year budget cuts which are expected to improve upon fiscal year 2013 performance as compared to budget. Some of these budget cuts include expense reductions in healthcare, transportation, facilities and food services.

For fiscal year 2013 the Board took action to stabilize its revenues by adopting a property tax increase equal to the maximum allowed under the Limitation Law. Despite this 1.5% increase, which is projected to generate \$62 million, fiscal year 2013 property tax revenues are projected to remain flat from the previous fiscal year due to the timing mismatch between the levy calendar year and the Board’s fiscal year. Property tax revenues are budgeted at \$2,052.8 million.

The amended fiscal year 2013 budget incorporates a three-month delay of non-GSA payments due from the State. In the past three fiscal years the Board has experienced delays averaging approximately three months in the receipt of certain non-GSA payments due from the State. As of July 30, 2012, the State’s outstanding non-GSA obligations to the Board totaled \$51.5 million, representing approximately one month of delay. As of May 8, 2013, the non-GSA payments from the State to the Board were delinquent by approximately \$52 million, which represents approximately one month of delay.

General Operating Fund Balances

As of June 30, 2012, the Board had a general operating fund balance of \$1,068.8 million. This represented a significant increase over the fund balance as of June 30, 2011, due primarily to the historically early collection of the second installment of property taxes levied in 2011. Of the June 30, 2012 balance, approximately \$165.9 million is reserved for non-spendable and restricted fund balances. Year-end assigned and unassigned fund balances for fiscal year 2012 were \$459.3 million and \$443.6 million, respectively.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**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⁾				Amended Budget⁽³⁾
	2008	2009	2010	2011	2012	2013
Revenue:						
Property Taxes	\$1,763,282	\$1,867,350	\$2,035,938	\$1,904,169	\$2,295,178	\$2,052,817
Replacement Taxes	159,805	132,819	96,816	172,384	126,786	105,712
State Aid	1,692,351	1,333,182	1,367,797	1,694,566	1,757,166	1,593,232
Federal Aid	832,526	1,122,805	1,160,412	1,121,457	890,987	910,839
Interest and investment income	40,905	21,405	3,084	1,920	4,363	3,500
Other	<u>96,816</u>	<u>102,107</u>	<u>111,985</u>	<u>221,391</u>	<u>142,160</u>	<u>134,400</u>
Total Revenue	\$4,585,685	\$4,579,668	\$4,776,032	\$5,115,887	\$5,216,640	\$4,800,500
Expenditures:						
Salaries:						
Teachers	\$1,885,400	\$1,975,940	\$2,026,257	\$2,023,510	\$2,026,832	2,037,900
Career Services / Education Services Personnel	559,741	597,533	604,042	610,741	618,265	629,200
Commodities:						
Energy	86,759	92,354	78,682	83,356	73,409	84,200
Food	83,326	89,592	93,088	93,766	104,245	117,500
Other Commodities	136,454	131,926	119,590	121,852	95,251	144,600
Services:						
Professional Services	360,277	440,921	381,851	450,127	412,072	411,800
Charter schools	189,006	256,154	326,322	377,755	424,423	425,800
Transportation	102,828	109,351	109,349	107,530	109,368	121,600
Other	135,032	131,669	130,116	132,610	130,400	142,400
Building and sites	37,009	34,784	31,864	37,360	33,955	37,200
Fixed Charges:						
Teachers' pension	350,483	392,801	475,628	306,111	335,657	343,300
Career Services / Education Services Personnel pension	89,776	93,791	96,913	102,158	100,026	100,500
Hospitalization and dental insurance	260,386	299,206	311,048	353,878	324,918	360,200
Other Benefits	66,596	70,414	79,070	82,855	78,083	83,800
Other Fixed Charges	<u>51,612</u>	<u>26,343</u>	<u>32,322</u>	<u>26,343</u>	<u>21,424</u>	<u>192,300</u>
Total Expenditures	\$4,394,685	\$4,742,779	\$4,896,142	\$4,909,952	\$4,888,328	\$5,232,300
Revenue (less Than) Expenditure	\$191,000	\$(163,111)	\$(120,110)	\$205,935	328,374	\$(431,800)
Transfers in	<u>3,813</u>	<u>20,389</u>	<u>17,851</u>	<u>109,830</u>	<u>0</u>	<u>-</u>
Net Change in Fund Balance	194,813	(142,722)	(102,259)	315,765	328,374	(431,800)
Fund Balance, beginning of period	<u>474,783</u>	<u>669,596</u>	<u>526,874</u>	<u>424,615</u>	<u>740,380</u>	<u>1,068,754</u>
Fund Balance, end of period	<u>\$669,596</u>	<u>\$526,874</u>	<u>\$424,615</u>	<u>\$740,380</u>	<u>\$1,068,754</u>	<u>\$636,954</u>
Composition of Fund Balance						
Non-Spendable	\$ 7,063	\$ 4,918	\$ 5,006	\$ 1,972	\$ 3,329	\$ 2,000
Restricted	155,003	134,381	201,070	217,891	162,553	135,600
Assigned for educational services	258,000	181,200	-	289,000	-	-
Assigned for appropriated fund balance	100,000	60,830	190,000	181,300	348,900	-
Assigned for encumbrances	80,377	81,711	24,655	44,924	110,397	61,100
Unassigned	<u>69,153</u>	<u>63,834</u>	<u>3,884</u>	<u>5,293</u>	<u>443,575</u>	<u>438,254</u>
Total Ending Fund Balance	<u>\$669,596</u>	<u>\$526,874</u>	<u>\$424,615</u>	<u>\$740,380</u>	<u>\$1,068,754</u>	<u>\$636,954</u>

(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 "FINANCIAL STATEMENTS" and APPENDIX A - "Audited Financial Statements for Fiscal Year 2012."

(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 year 2011 audit, as required by Governmental Accounting Standards Board No. 54.

(3) See the sections entitled "BOARD OF EDUCATION OF THE CITY OF CHICAGO - Overview of Board's Fiscal Year 2013 Budget and Recent Financial Information Concerning the Board" and " - General Operating Fund Balances" and "FINANCIAL STATEMENTS" for a discussion of fiscal year 2012 estimates and the amended budget for fiscal year 2013.

Outstanding Debt Obligations

Long-Term Debt Obligations. The Board has approximately \$6.3 billion aggregate principal amount of outstanding long-term debt, consisting of approximately \$6.1 billion aggregate principal amount of Alternate Bonds and approximately \$267 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 Collectors 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.

Since its fiscal year ended on June 30, 2012, the Board has issued the following series of bonds:

In August 2012, the Board issued the Series 2012A Unlimited Tax General Obligation Bonds in the amount of \$468.9 million for the continued implementation of the Board’s Capital Improvement Program that will be paid from General State Aid revenues. The offering documents for Series 2012A were filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system.

In December 2012, the Board issued the Series 2012B Unlimited Tax General Obligation Refunding Bonds in the amount of \$109.8 million to (i) refund the principal of and/or interest on all or a portion of certain maturities of certain outstanding bonds of the Board, (ii) pay interest due on certain of the Bonds to and including December 1, 2015 and (iii) pay the costs of issuance of the Bonds (including the Underwriters’ discount).

The offering documents for both the Series 2012A and 2012B were filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system.

Debt Service Reserve. The Board maintains an unrestricted debt service reserve. As of May 8, 2013 the debt service reserve had a balance of \$219.4 million. The debt service reserve is available to pay debt service on all outstanding bonds of the Board, but it is not specifically pledged to the payment of debt service on the Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Board's Overlapping Debt Schedule

As of May 1, 2013
(Dollars in Thousands)

Direct Debt			
The Bonds ⁽¹⁾		\$	403,980
Total Prior Bonds ⁽¹⁾			5,654,418
Leases Securing PBC Bonds (principal component)			<u>267,330</u>
Total Direct Debt		\$	<u>6,325,728</u>
Overlapping Debt ⁽²⁾			
	Amount	Percent Applicable	Amount Applicable
City	\$7,682,303	100.00%	\$ 7,682,303
Chicago Park District ⁽³⁾	826,090	100.00%	826,090
Water Reclamation District	2,492,762	50.40%	1,256,393
County ⁽⁴⁾	3,709,530	48.08%	1,783,689
Forest Preserve District	187,950	49.40%	<u>92,848</u>
Total Overlapping Debt			<u>\$ 11,641,323</u>
Total Direct and Overlapping Debt			<u>\$17,967,051</u>
Population (2011)			2,707,120 ⁽⁵⁾
Equalized Assessed Valuation (2011)			\$ 75,122,914 ⁽⁶⁾
Estimated Fair Market Value (2010)			\$231,986,396 ⁽⁷⁾
	<u>Per Capita⁽⁸⁾</u>	<u>% EAV</u>	<u>% FMV</u>
Direct Debt	\$ 2,336.70	8.42%	2.73%
Total Direct and Overlapping Debt	6,636.96	23.92%	7.74%

-
- (1) Calculated giving effect to the refunding of the Refunded Bonds.
(2) 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.
(3) Includes \$427,090,000 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, harbor fees and other specific revenues.
(4) Includes \$90,000,000 sales tax-backed general obligation bonds.
(5) Source: United States Census Bureau. The census is conducted decennially at the start of each decade.
(6) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.
(7) Source: The Civic Federation.
(8) Per Capita amounts are not expressed as dollars in thousands.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

BOARD'S DEBT SERVICE SCHEDULE⁽¹⁾
As of May 22, 2013

Calendar Year	Prior Bonds⁽²⁾	PBC Leases	The Bonds⁽³⁾	Total Annual Debt Service
2013	\$401,820,297	\$ 52,359,513	\$9,487,465	\$463,667,275
2014	404,002,933	52,430,550	25,382,018	481,815,502
2015	454,563,906	52,467,613	25,351,297	532,382,816
2016	451,539,520	52,519,550	25,326,062	529,385,131
2017	452,944,561	52,600,125	25,276,643	530,821,330
2018	450,079,234	52,664,600	25,247,362	527,991,196
2019	471,529,214	30,635,500	25,210,324	527,375,039
020	498,915,878	—	25,176,081	524,091,958
2021	517,625,171	—	25,122,239	542,747,409
2022	512,431,885	—	25,089,026	537,520,911
2023	497,686,347	—	25,041,393	522,727,740
2024	497,652,057	—	32,766,858	530,418,915
2025	553,291,612	—	32,682,856	585,974,467
2026	492,564,633	—	32,613,688	525,178,321
2027	494,920,099	—	32,517,235	527,437,334
2028	499,492,691	—	32,412,250	531,904,941
2029	499,803,286	—	32,296,114	532,099,400
2030	473,247,720	—	32,181,093	505,428,814
2031	473,015,890	—	32,060,355	505,076,245
2032	183,410,593	—	31,941,480	215,352,073
2033	175,732,487	—	31,799,540	207,532,027
2034	175,769,284	—	31,664,869	207,434,153
2035	175,739,392	—	31,523,275	207,262,667
2036	186,840,890	—	18,216,565	205,057,455
2037	205,043,876	—	—	205,043,876
2038	205,041,993	—	—	205,041,993
2039	205,041,824	—	—	205,041,824
2040	205,039,866	—	—	205,039,866
2041	205,041,750	—	—	205,041,750
2042	<u>205,038,750</u>	<u>—</u>	<u>—</u>	<u>205,038,750</u>
	<u>\$ 11,224,867,640</u>	<u>\$ 345,677,450</u>	<u>\$ 666,386,089</u>	<u>\$ 12,236,931,179</u>

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

⁽²⁾ Interest on variable rate bonds is calculated at assumed rates of between 4.5% and 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” herein.

⁽³⁾ Interest on the Bonds is calculated at the applicable swap rate, (see “– Board’s Interest Rate Swap Agreements” below), plus the applicable fixed spreads of 58, 75 and 83 basis points for the Series 2013A-1 Bonds, Series 2013A-2 Bonds and Series 2013A-3 Bonds, respectively.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Assessed Value ⁽¹⁾	\$73,651,158	\$80,983,239	\$84,592,286	\$82,092,485	\$75,127,593
Debt Limit	10,163,860	11,175,687	11,673,736	11,328,763	10,367,652
General Obligation	606,009	553,134	498,593	446,719	394,793
Less: Amount set aside for repayment of bonds	(36,238)	(34,719)	(16,042)	(36,440)	(29,917)
Total Net Debt applicable to Debt Limit ⁽²⁾	<u>569,771</u>	<u>518,415</u>	<u>482,551</u>	<u>410,279</u>	<u>364,876</u>
Legal debt margin	<u>\$9,594,089</u>	<u>\$10,657,272</u>	<u>\$11,191,184</u>	<u>\$10,918,484</u>	<u>\$10,002,776</u>
Total net debt applicable to the limit as a percentage of Debt Limit	5.61%	4.64%	4.13%	3.62%	3.52%

⁽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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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 any new interest rate swap agreement in connection with the issuance of the Bonds, but in conjunction with the refunding of the Refunded Bonds, the Existing Swap Agreements pertaining to the Refunded Bonds will be transferred so that such Existing Swap Agreements will apply to 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⁾	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2005A	Loop Financial Products I LLC ⁽²⁾ Merrill Lynch Capital Services, Inc. ⁽³⁾	A2/A+ Baa2/A-	\$116,151,000 \$77,434,000	12/1/2031 12/1/2031	SIFMA Index SIFMA Index	70% of LIBOR + 52.4 bp 80.76% of LIBOR
2008A	Royal Bank of Canada Bank of America, N.A.	Aa3/AA- A3/A	\$162,785,000 \$100,000,000	12/1/2028 12/2/2030	5.25% 5.25%	70% of LIBOR + 28 bp 70% of LIBOR + 28 bp
2008B	Goldman Sachs Bank USA ^{(4), (5)} Goldman Sachs Bank USA ⁽⁵⁾	A2/A A2/A	\$95,350,000 \$90,000,000	3/1/2034 3/1/2034	3.771% 3.771%	70% of LIBOR 70% of LIBOR
2011D	Royal Bank of Canada	Aa3/AA-	\$61,100,000	3/1/2032	3.823%	70% of LIBOR
2013A-1	Loop Financial Products I LLC ⁽²⁾	A2/A+	\$122,605,000	3/1/2026	3.6617%	70% of LIBOR
2013A-2	Royal Bank of Canada	Aa3/AA-	\$124,320,000	3/1/2035	3.825%	70% of LIBOR
2013A-3	Loop Financial Products I LLC ⁽²⁾	A2/A+	\$157,055,000	3/1/2036	3.6617%	70% of LIBOR

⁽¹⁾ As of May 1, 2012.

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

⁽³⁾ Rating is for Merrill Lynch & Co., Inc.

⁽⁴⁾ On January 27, 2010, the Swap Agreement was novated to Goldman Sachs Bank USA from Lehman Brothers Special Financing Inc.

⁽⁵⁾ 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 the applicable 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

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 2012" – 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).

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 (as defined in "– *Legal Authority and Funding Requirements*" below) fell below 90% (the statutory required funding level, as described below under "– *Legal Authority and Funding Requirements*"), primarily due to unanticipated investment losses. The fiscal year 2012 Unfunded Actuarial Liability (as defined in "– *Actuarial Valuation*" below) climbed to \$8.0 billion against assets of \$9.4 billion resulting in a funded ratio of 54.1%. As detailed in Table 3 below, the Funded Ratio is projected to decline to a low of 52.75% by fiscal year 2015. The funded ratio is projected to remain below 54% until fiscal year 2023 when it begins to increase gradually to 90% in fiscal year 2059.

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 projected 2014 contribution requirement of \$600.0 million. 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 pension 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 2012 and 2013 suggests that this problem is on the State's legislative agenda. The Board cannot predict whether or when any such legislative reforms will become law, what the content of any such reforms may be, or what the ultimate financial effect of any such reforms would be on the financial health of the Pension Fund.

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, 2003 through 2011 (the “2011 Actuarial Valuations”) prepared by Goldstein & Associates, Actuaries and Consultants, and Statutorily Required Funding Valuation as of June 30, 2012 (the “2012 Actuarial Valuation”) prepared by The Segal Company, both 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, 2012 (the “Pension Fund 2012 CAFR”) prepared by the Pension Fund’s independent auditors KPMG LLP, Chicago, Illinois (the “Pension Fund Auditors”) (the 2011 Actuarial Valuations, the 2012 Actuarial Valuation and the Pension Fund 2012 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 2012 CAFR and the 2012 Actuarial Valuation are the most recent audit and actuarial valuation available to the Board. The Pension Fund 2012 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 the 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 salaries 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 salaries 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.

The projections in Table 3 are based upon numerous variables that are subject to change, and are forward-looking statements regarding future events based on the Pension Fund’s actuarial assumptions and assumptions made regarding such future events, including but not limited to there are no changes to the current legislative structure and that all projected contributions to the Pension Fund are made as required. No assurance can be given that these assumptions will be realized or that actual events will not cause material changes to the data presented in Table 3.

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, 20 and 22 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 the “Actuarial Required Contributions” as determined under 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 in part 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 also 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);
- Reduced 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;
- Calculated 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;
- Capped the salary on which a pension may be calculated at \$106,800 (subject to certain adjustments for inflation); and
- Suspended 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, 2012, the Pension Fund included 60,537 members consisting of 25,458 retirees and beneficiaries currently receiving benefits, 4,245 terminated members entitled to benefits but not yet receiving them, 21,063 vested current members and 9,303 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 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. 96-0889 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 Actuarial 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 – "Projections of Contributions, Liabilities and Assets."

State and Board Required Payroll Contributions. The Illinois Pension Code requires that the State and Board each 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 2014 are \$11,903,000 for the State and \$12,691,000 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 year 2010 the State appropriation was reduced by approximately 50%. The State did not make an appropriation in excess of required statutory contributions of \$10.94 million for its fiscal year 2013. 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."

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The following table provides historical contribution information and the Actuarially Required Contribution (as defined in “– *Statutory Funding Plan Not in Accordance with GASB 25*” below) for fiscal years 2003-2012.

Table 1

Historical Contributions
(All dollar amounts are in millions)

Fiscal Year	Employee Contributions	Employer Contributions			Actuarially Required Contribution (ARC) ⁽³⁾
		State Appropriations and Payroll Contributions ⁽¹⁾	BOE Contributions ⁽²⁾	Total Employer Contributions	
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	188.2	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
2012	167.7	10.4	195.8	206.2	520.1

Sources: Chicago Public Schools Comprehensive Annual Financial Reports for fiscal years ended June 30, 2003-2011
Public School Teachers’ Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2012

- (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 lawsuits 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 2012, the Pension Fund had liabilities of \$17,375,660,369 and assets of: (i) \$9,398,201,630 if valued on an actuarial basis (using the “Asset Smoothing Method” (as described below), or (ii) \$9,471,440,984 if valued based on market value. This results in an aggregate Unfunded Actuarial Liability of the Pension Fund of approximately \$8.0 billion on an actuarial basis (using the Asset Smoothing Method), and \$7.9 billion on a market value basis and Funded Ratios of 54.1% on an actuarial basis (using the Asset Smoothing Method) and 54.5% on a market value basis. The fiscal year 2012 Actuarial Liability represents an increase of \$435.0 million compared to the Actuarial Liability of \$16.9

billion as of June 30, 2011 resulting in an increase of the total Unfunded Actuarial Liability from \$6.8 billion to \$8.0 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 2012 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 2012” – [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 2003-2012 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⁾
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
2012	9,398,202	17,375,660	7,977,459	54.1%	2,118,235

Sources: Public School Teachers’ Pension and Retirement Fund of Chicago Actuarial Valuation for fiscal years ending June 30, 2003-2011.

Comprehensive Annual Financial Reports of the Pension Fund for the fiscal year ended June 30, 2011.

Public School Teachers’ Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2012

⁽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 2012” – [Exhibit 7.]

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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
2013	190.8	218.6	10.9	11.7	196.0	17,873.4	9,456.2	8,417.2	52.9%
2014	196.9	624.6	11.9	12.7	600.0	18,386.3	9,864.9	8,521.4	53.7%
2015	202.9	643.7	12.3	13.1	618.4	18,913.3	9,971.4	8,941.9	52.7%
2016	209.2	663.6	12.6	13.5	637.4	19,453.21	10,277.2	9,176.0	52.8%
2017	215.5	683.8	13.0	13.9	656.8	20,006.3	10,592.5	9,413.8	52.9%
2018	221.9	704.2	13.4	14.3	676.5	20,573.1	10,921.2	9,651.9	53.1%
2019	228.5	725.1	13.8	14.7	696.5	21,154.6	11,267.1	9,887.5	53.3%
2020	235.1	746.3	14.2	15.2	716.9	21,752.0	11,627.9	10,124.1	53.5%
2021	241.9	768.0	14.6	15.6	737.8	22,368.3	12,006.5	10,361.7	53.7%
2022	248.9	790.4	15.1	16.1	759.3	23,004.5	12,404.7	10,599.8	53.9%
2023	255.9	813.2	15.5	16.5	781.2	23,660.2	12,822.2	10,838.0	54.2%
2024	262.9	836.2	15.9	17.0	803.3	24,336.2	13,260.3	11,075.9	54.5%
2025	269.9	859.4	16.4	17.5	825.6	25,032.3	13,719.5	11,312.8	54.8%
2026	276.9	882.6	16.8	17.9	847.8	25,747.9	14,199.6	11,548.2	55.1%
2027	283.8	905.6	17.3	18.4	869.9	26,484.2	14,702.0	11,782.2	55.5%
2028	290.8	928.9	17.7	18.9	892.2	27,239.6	15,226.5	12,013.1	55.9%
2029	297.6	952.0	18.1	19.3	914.5	28,012.8	15,772.7	12,240.1	56.3%
2030	304.4	975.0	18.6	19.8	936.6	28,803.5	16,341.2	12,462.4	56.7%
2031	311.3	998.0	19.0	20.3	958.7	29,610.9	16,932.2	12,678.7	57.2%
2032	318.0	1,021.1	19.5	20.7	980.9	30,432.8	17,545.0	12,887.8	57.7%
2033	324.6	1,044.0	19.9	21.2	1002.9	31,265.7	18,177.6	13,088.1	58.1%
2034	331.0	1,066.7	20.3	21.7	1024.7	32,104.4	18,827.0	13,277.4	58.6%
2035	337.0	1,088.8	20.7	22.1	1,045.9	32,944.2	19,489.8	13,454.4	59.2%
2036	342.8	1,110.3	21.2	22.6	1,066.6	33,778.3	20,161.6	13,616.7	59.7%

Source: Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Funding Valuation as of June 30, 2012 (Exhibit II).

(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.

The projections in Table 3 rely on information produced by the Pension Board's independent actuary and were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. This information is not fact and should not be relied upon as being necessarily indicative of future results (including results of fiscal year 2012), and readers are cautioned not to place undue reliance on the prospective financial information. Neither the Board nor the Board's independent auditors, have compiled, examined, or performed any procedures with respect to the prospective financial information herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

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 2011 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 2012 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 following table summarizes actuarial and market investment return on the assets in the Pension Fund for fiscal years 2003-2012.

Table 4

Investment Return		
Fiscal Year	Actuarial Value	Market Value
2003	4.0%	2.3%
2004	15.0%	3.2%
2005	10.8%	6.0%
2006	10.7%	9.6%
2007	17.7%	13.3%
2008	-5.3%	7.9%
2009	-22.4%	0.2%
2010	13.6%	-0.4%
2011	24.8%	-0.5%
2012	-0.4%	1.0%
Average Returns		
Last 5 years	0.0%	1.7%
Last 10 years	5.9%	4.3%

Sources: Public School Teachers' Pension and Retirement Fund of Chicago Statutorily Required Valuation as of June 30, 2012

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 APPENDIX B – "Pension Fund Actuarial Valuation for Fiscal Year 2012."

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

Asset Smoothing Method of Valuation. The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 25, which establishes standards of financial reporting for governmental pension plans. Under GASB Statement No. 25, the actuarial value of assets to be used for determining a plan's funded status and annual required contribution needs to be market related. In determining the actuarial value of assets, smoothing changes in the market value of assets over a period of three to five years is considered to be appropriate. The asset values used for the Actuarial Valuation by the Actuaries to determine required Board and State contributions were based on the asset information contained in the Pension Fund 2012 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* that would be required under GASB. The difference between GASB's requirements and the Illinois Pension Code requirements is discussed in "*—Statutory Funding Plan Not in Accordance with GASB 25*" below.

* 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.

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

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

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

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

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

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.

On June 25, 2012, GASB approved two new standards for employee pension accounting and financial reporting by state and local governments. The two new GASB statements, Nos. 67 and 68, replace some of the requirements of previous GASB statements (Nos. 25, 27, and 50) related to pension plans. Some of the key changes imposed by these new standards include: (1) requiring governments for the first time to recognize the difference between total pension liability (i.e., the present value of projected benefit payments to employees based on their past service) and pension assets (mostly investments reported at fair value) as a liability of the employer; (2) immediate recognition of annual service cost and interest on pension liability and immediate recognition of the effect on net pension liability of changes in benefit terms; (3) the effects on net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed 5-year period (previously 15-30-year period); (4) with respect to benefits not covered by projected plan assets, the use of a discount rate based on a yield or index rate on tax-exempt 20-year, AA-or-higher rated municipal bonds rather than the expected rate of return on plan investments; and (5) revising the presentation of pension liabilities in a government's financial statements. If adopted by the Board, the use of the new standards may have an impact on the Unfunded Actuarial Liability. According to GASB's news release, Statement 67 will go into effect "for periods after June 15, 2013" and Statement 68 will go into effect "for fiscal years beginning after June 15, 2014."

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, 2011, in a report dated December 2012 (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. The COGFA Report is not incorporated by reference into this Official Statement.

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 2012" – 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, 2011 (the "Annuity Fund 2011 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, 2012 (the "2012 Annuity Fund Actuarial Valuation" and together with the Annuity Fund 2011 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 2011 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 68,911 as of December 31, 2012) 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, 2012, the Annuity Fund had 68,911 total members including 19,614 retirees, 13,465 inactive members and 31,326 active members (of which 17,037 were vested and 14,289 were non-vested).^{*} CPS employees comprise about half of the Annuity Fund's active participants. In fiscal year 2012, the Board 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 2012, the Annuity Fund had liabilities of \$13,637,460,046 and assets of: (i) \$5,073,320,275 if valued on an actuarial basis (using the Asset Smoothing Method as required by the Illinois Pension Code, or (ii) \$5,182,669,659 if valued based on market value. This results in an aggregate Unfunded Actuarial Liability of the Annuity Fund of approximately \$8,564,139,771 on an actuarial basis (using the Asset Smoothing Method), and \$8,454,790,387 on a market value basis and Funded Ratios of 37.2% on an actuarial basis (using the Asset Smoothing Method) and 38.0% on a market 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 2012 CAFR in accordance with GASB Statement No. 43, as well as the Public School Teachers' Pension and Retirement Fund of Chicago (the "2012 Health Insurance Plan Actuarial Valuation") prepared by the Actuaries. Pursuant to the 2012 Health Insurance Plan Actuarial Valuation, as of June 30, 2012 (a) the total actuarial liability for the Health Insurance Program has been estimated to be \$3,110,316,363, (b) the actuarial value of assets is \$34,124,958, (c) the unfunded actuarial liability is \$3,076,191,305, (d) the funded ratio is 1.1% and (e) the annual required contribution to be \$218,842,221. This estimate represents the amount of healthcare benefits under the Health Insurance Program, without any assumption as to a limit on the amount the Pension Fund may divert to the Health Insurance Program.

Sick Pay Benefits. In addition to the Pension and Health Insurance benefits noted above, as of June 30, 2012, the Board had \$354,692,000 in accrued sick pay benefits. See APPENDIX A – "Audited Financial Statements for Fiscal Year 2012" – Note 11.

^{*} Source: Actuarial Valuation of the Annuity Fund as of December 31, 2012.

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 information contained on this website is not incorporated by reference into this Official Statement and the Underwriters take no responsibility for such information, nor have they attempted to verify the accuracy of such information. The Debt Policy may be subsequently amended or modified by the Board, without notice to or consent of the registered owners of the Bonds. The locations of the Board’s Debt Policy and Investment Policy (defined and described below) are included herein solely for general background purposes and for the convenience of Bondholders. In no event is such information or any other information on the Board’s website incorporated herein by reference, and the Underwriters are not responsible for the accuracy of the information contained on the Board’s website.

Investment Policy

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

A copy of the Investment Policy is available at the Board’s website at <http://policy.cps.k12.il.us/documents/403.1.pdf>. The information contained on this website is not incorporated by reference into this Official Statement and the Underwriters take no responsibility for such information, nor have they attempted to verify the accuracy of such information. The Investment Policy may be subsequently amended or modified by the Board, without notice to or consent of the registered owners of the Bonds subject, in all respects, to the provisions of the Public Funds Investment Act of the State of Illinois, as amended.

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

There are seven major units of local government located in whole or in part within the boundaries of the School District governed by the Board, each of which (i) is separately incorporated under the laws of the State, (ii) has an independent tax levy, (iii) derives its power and authority under the laws of the State, (iv) maintains its own financial records and accounts and (v) is authorized to issue debt obligations. These units are: the City; the Chicago Park District; Community College District Number 508; Cook County; the Forest Preserve District of Cook County; and the Metropolitan Water Reclamation District of Greater Chicago. Each of the foregoing governmental units levies taxes upon property located in the City, and, in some cases, in other parts of Cook

County as well. For additional information about the Board, see “BOARD OF EDUCATION OF THE CITY OF CHICAGO.” Information about these other units of local government is set forth below.

Major Units of Government

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

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

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

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

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

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

Interrelationships of These Bodies

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

Other Public Bodies

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

The Public Building Commission of Chicago (the “PBC”) is a municipal corporation authorized to acquire, construct and improve public buildings and facilities for use by one or more of the local governmental

units. The PBC issues bonds to finance its various projects and then leases its facilities to certain governmental units, including the Board. See “BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board’s Overlapping Debt Schedule.”

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

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

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

THE REAL PROPERTY TAX SYSTEM

Real Property, Assessment, Tax Levy and Collection Procedures

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

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

Assessment. The Cook County Assessor (the “Assessor”) is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was reassessed in tax year 2009 and is being 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 were 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 eleven years ended December 31, 2011, see “– Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2001-2011.”

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 through 2011 (the “General Homestead Exemption”). For assessment years 2012 and thereafter, the maximum reduction is \$7,000 in counties with 3,000,000 or more inhabitants and \$6,000 in all other counties.

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 per year by no more than the percentages described below. 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. If the taxpayer’s annual income is over \$75,000 to \$100,000, the EAV of the Qualified Homestead Property may increase by no more than 10% 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. The exemption continues for 4 years from the date the improvement or rebuilding is completed and occupied, or until the next general assessment of the property, whichever is later.

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 \$3,500 in all counties. In addition for assessment years 2008 through 2011 the maximum reduction is \$4,000 in all counties. For assessment year 2012, the maximum reduction is \$5,000 in counties with 3,000,000 or more inhabitants and \$4,000 in all other counties. For assessment years 2013 and thereafter, the maximum reduction is \$5,000 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 pro rata 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 and those veterans with a service-connected disability of at least 70% are granted an

exemption of \$5,000. 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.

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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Assessed, Equalized Assessed and Estimated Value of All Taxable Property 2001-2011
(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				
2011	\$17,976,208	\$1,161,634	\$10,411,363	\$544,416	\$30,093,621	2.9706	\$75,122,914	N/A	N/A
2010	18,120,678	1,476,291	10,407,012	561,682	30,565,663	3.3000	82,087,170	231,986,396	35.38
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.

(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 2011 is not available as of the date of this Official Statement.

(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	Extension	First Year Collections		Cumulative Collections ⁽¹⁾	
		Amount	Percent	Amount	Percent
2011	\$2,159,784	\$2,073,544	96.0%	\$2,086,414	96.6%
2010	2,118,541	1,972,086	93.1%	2,087,616	98.5%
2009	2,001,252	1,861,211	93.0%	1,952,057	97.5%
2008	2,001,751	1,863,630	93.1%	1,949,707	97.4%
2007	1,901,887	1,809,396	95.1%	1,847,482	97.1%
2006	1,874,750	1,644,937	87.7%	1,804,822	96.3%
2005	1,794,063	1,728,522	96.3%	1,744,132	97.2%
2004	1,716,111	1,565,982	91.3%	1,680,823	97.9%
2003	1,670,337	1,500,238	89.8%	1,620,892	97.0%
2002	1,614,473	1,548,369	95.9%	1,574,148	97.5%

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

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Tax Rates by Board Fund:										
Educational	\$2.670	\$2.258	\$2.301	\$2.142	\$2.078	\$2.377	\$2.426	\$2.204	\$2.449	\$2.671
School District Medicare ⁽¹⁾	0.017	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.150	0.219	0.131	0.228	0.021	0.190	0.031	0.148	0.067	0.133
PBC Operation and Maintenance ⁽²⁾	0.609	0.565	0.576	0.565	0.521	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals	<u>0.116</u>	<u>0.100</u>	<u>0.096</u>	<u>0.091</u>	<u>0.077</u>	<u>0.016</u>	<u>0.155</u>	<u>0.014</u>	<u>0.065</u>	<u>0.071</u>
Board Subtotal	<u>\$3.562</u>	<u>\$3.142</u>	<u>\$3.104</u>	<u>\$3.026</u>	<u>\$2.697</u>	<u>\$2.583</u>	<u>\$2.472</u>	<u>\$2.366</u>	<u>\$2.581</u>	<u>\$2.875</u>
Other Major Government Units:										
City of Chicago	\$1.591	\$1.380	\$1.302	\$1.243	\$1.062	\$1.044	\$1.147	\$1.098	\$1.132	\$1.229
Community College District	0.280	0.246	0.242	0.234	0.205	0.159	0.156	0.150	0.151	0.165
School Finance Authority	0.177	0.151	0.177	0.127	0.118	0.091	0.000	0.000	0.000	0.000
Chicago Park District	0.545	0.464	0.455	0.443	0.379	0.355	0.323	0.309	0.319	0.346
Water Reclamation District	0.371	0.361	0.347	0.315	0.284	0.263	0.252	0.261	0.274	0.320
Cook County	0.690	0.630	0.593	0.533	0.500	0.446	0.415	0.394	0.423	0.462
Cook County Forest Preserve	<u>0.061</u>	<u>0.059</u>	<u>0.060</u>	<u>0.060</u>	<u>0.057</u>	<u>0.053</u>	<u>0.051</u>	<u>0.049</u>	<u>0.051</u>	<u>0.058</u>
Other Unit Subtotal	<u>\$3.715</u>	<u>\$3.291</u>	<u>\$3.176</u>	<u>\$2.955</u>	<u>\$2.605</u>	<u>\$2.411</u>	<u>\$2.344</u>	<u>\$2.260</u>	<u>\$2.350</u>	<u>\$2.580</u>
TOTAL	<u>\$7.277</u>	<u>\$6.433</u>	<u>\$6.280</u>	<u>\$5.981</u>	<u>\$5.302</u>	<u>\$4.994</u>	<u>\$4.816</u>	<u>\$4.630</u>	<u>\$4.931</u>	<u>\$5.455</u>

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

⁽¹⁾ Beginning fiscal year 2004, the tax levy for Medicare has been consolidated with the Education tax rate.

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

TAX EXEMPTION

Summary of Co-Bond Counsel Opinion. Katten Muchin Rosenman LLP and McGaugh Law Group LLC, Co-Bond Counsel, are of the opinion that under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the “Code”), Co-Bond Counsel are of the opinion that interest on the Bonds will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. In addition, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income but is includable in corporate earnings and profits when computing, for example, corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Bonds is not exempt from Illinois income taxes.

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

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

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

(c) *Restrictions on Ownership and Use.* The Code includes restrictions on the ownership and use of the facilities financed with the proceeds of the Bonds. Such provisions may restrict future changes in the use of any property financed with the proceeds of the Bonds.

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

Risk of Non Compliance. In the event that the Board fails to comply with the requirements of the Code, interest on the Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactively to the date of issue. In such event, the Indenture does not require acceleration of payment of principal of or interest on the Bonds or payment of any additional interest or penalties to the owners of the Bonds.

Federal Income Tax Consequences. Pursuant to Section 103 of the Code, interest on the Bonds is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Bonds that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below.

PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE BONDS.

(a) *Cost of Carry.* Owners of the Bonds will generally be denied a deduction for otherwise deductible interest on any debt that is treated for federal income tax purposes as incurred or continued to purchase or carry the Bonds. Financial institutions are denied a deduction for their otherwise allowable interest expense in an amount determined by reference to their adjusted basis in the Bonds.

(b) *Corporate Owners.* Interest on the Bonds is taken into account in computing earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Bonds is taken into account in computing the alternative minimum tax for corporations, but also the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax.

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

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

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

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

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

RATINGS

The Bonds have been assigned the ratings of “A2” by Moody’s Investors Service (“Moody’s”) and “A+” by Standard & Poor’s Ratings Services, a business of Standard & Poor’s Financial Services LLC (“Standard & Poor’s”), based on the credit of the Board.

A rating reflects only the view of the rating agency giving such rating. Any explanation of the significance of such ratings may be obtained only from the respective rating agency. There is no assurance that any such rating will be maintained for any given period of time or that any such rating may not be raised, lowered or withdrawn entirely by the respective rating agency if in its judgment

circumstances so warrant. Any change in or withdrawal of any such rating may have an effect on the price and marketability of the Bonds.

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

FINANCIAL STATEMENTS

The financial statements of the Board of Education of the City of Chicago as of and for the year ended June 30, 2012, included in APPENDIX A to this Official Statement have been audited by McGladrey & Pullen, LLP, independent auditors, as stated in their report appearing herein.

In accordance with its existing continuing disclosure agreements relating to bonds previously issued by the Board, the Board is obligated file its audited annual financial statements with EMMA when such statements become available and not more than 210 days after the last day of the Board's fiscal year.

CO-FINANCIAL ADVISORS

The Board has engaged A.C. Advisory, Inc. and The PFM Group (the "Financial Advisors") in connection with the authorization, issuance and sale of the Bonds. The Financial Advisors have provided advice on the plan of financing and structure of the Bonds and have reviewed certain legal documents, including this Official Statement, with respect to financial matters. Unless indicated to the contrary, the Financial Advisors have not independently verified the factual information contained in this Official Statement, but have relied on the information supplied by the Board and other sources. The Financial Advisors are "municipal advisors" as defined in the Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law No. 111-203.

UNDERWRITING

J.P. Morgan, on behalf of itself and as representative of the other underwriters listed on the cover page of this Official Statement (the "Underwriters"), has agreed to purchase the Bonds at an aggregate purchase price of \$403,980,000 (representing the aggregate principal amount of the Bonds). The Underwriters will receive a fee in the amount of \$1,031,820.43 with respect to the purchase of the Bonds. The Bonds will be offered to the public at the prices as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Board for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and investments of the Board.

J.P. Morgan has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from J.P. Morgan at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

The interest rate on the Bonds may be based on One Month LIBOR or Three Month LIBOR. JPMorgan Chase Bank, N.A, an affiliate of J.P. Morgan, is a reference bank for purposes of setting LIBOR.

The interest rate on the Bonds may be based on the SIFMA Index. J.P. Morgan serves as remarketing agent for variable rate demand obligations that are included in the calculation of the SIFMA index.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois and the McGaugh Law Group LLC, Chicago, Illinois, as Co-Bond Counsel ("Co-Bond Counsel"), who has been retained by, and act as Co-Bond Counsel to, the Board. Co-Bond Counsel has not been retained or consulted on disclosure matters and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds and assumes no responsibility for the statements or information contained in or incorporated by reference in this Official Statement, except that in their capacity as Co-Bond Counsel, Katten Muchin Rosenman LLP and the McGaugh Law Group LLC have, at the request of the Board, reviewed those sections of this Official Statement involving the description of the Bonds, the security for the Bonds and the description of the federal tax exemption of interest on the Bonds. This review was undertaken solely at the request and for the benefit of the Board and did not include any obligation to establish or confirm factual matters set forth herein. The proposed form of such opinion is included herein as APPENDIX D. Certain legal matters will be passed upon for the Board by James L. Bebley, the Board's General Counsel, and by its special counsel, Greene and Letts, Chicago, Illinois. Pugh, Jones & Johnson, P.C., Chicago, Illinois and The Tyson Law Group, LLC, Chicago, Illinois, who have been designated as co-counsel to the Underwriters by the Board, will pass upon certain matters for the Underwriters.

LITIGATION

General

The Board is involved in numerous lawsuits that arise out of the ordinary course of operating the school system, including, but not limited to, the lawsuits described in this Official Statement. Some of the cases pending against the Board involve claims for substantial monies. As is true with any complex litigation, neither the Board nor its counsel is able to predict either the eventual outcome of such litigation or its impact on the Board's finances. The Board has available to it a tort liability tax levy to pay tort

judgments and settlements. This tort liability tax levy is unlimited as to rate, but subject to the limitations on the annual growth in property tax extensions of the Board imposed by the Property Tax Extension Limitation Law of the State, as amended. See “THE REAL PROPERTY TAX SYSTEM – Property Tax Extension Limitation Law; Issuance of Alternate Bonds.”

Upon delivery of the Bonds to the Underwriter, 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

Chicago Teachers Union v. Board of Education etc. et al. (U.S. Dist. Court, ND ILL.) Case No. 10-CV-4852. CTU challenges the economic layoffs that the Board implemented during the summer of 2010. CTU claims violations of federal due process and the contracts clause of the U.S. Constitution as well as state law violations. 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. On February 17, 2012, the Illinois Supreme Court ruled that neither Section 34-18(31) nor Section 34-84 of the School Code, considered separately or together, gives laid off tenured teachers either a substantive right to be rehired after an economic layoff or a right to certain procedures during the rehiring process. The Seventh Circuit reversed the district court’s order and instructed the Court to vacate the injunctions. Although District Court Judge Chang (who inherited the case from retired Judge Coar) is currently considering the plaintiffs’ motion for leave to file an amended complaint, the CTU and the Board negotiated a provision in the 2012 collective bargaining agreement which requires the CTU to withdraw Case No. 10-CV- 4852. The Board approved the agreement at its October, 2012 meeting. On November 9, 2012 the case was dismissed with prejudice pursuant to a stipulation by the parties.

Price, et al., v. Board of Education (U.S. Dist. Court, N.D. Ill.), Case No. 11-CV-4463. 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 Case No. 11-CV-4463 assigned to the same federal district judge handling Case No. 10-CV-4852. This companion case, Case No. 11-CV-4463, was not the subject of the CTU agreement with the Board, and the Judge allowed the plaintiffs to file an amended complaint. On May 8, 2013 the judge issued a ruling dismissing this case in its entirety. Plaintiffs have filed a notice of appeal with the Seventh Circuit Court of Appeals.

Plaintiffs claim damages of an estimated \$50 million plus attorneys' fees. The value of the attorneys' fees claim is unknown. The Board is unable to form an opinion regarding the ultimate outcome of this case at this time.

Chicago Teachers Union v. Chicago Board of Education (IELRB), Cases No. 2011-C-0033-C. 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. On June 15, 2012, following the submission of the parties' post-hearing briefs, the amended complaint was dismissed in its entirety based upon an Administrative Law Judge's ("ALJ") recommended decision and order. On August 7, 2012, the CTU filed exceptions to that decision and on September 18, 2012, the Board filed its response to those exceptions. The matter is currently pending before the IELRB for decision. As part of its September, 2012 strike settlement agreement with the Board, on October 4, 2012, the CTU notified the IELRB of its request to dismiss the charge with prejudice. The IELB dismissed the case allowing the ALJ's recommended decision to stand as a non-precedential decision. The CTU filed a motion requesting that the IELRB merely dismiss the Unfair Labor Practice without upholding the ALJ's recommended decision on April 18, 2013 the IELRB voted 5-0 to deny the CTU's motion. Accordingly, the IELRB will be issuing a final decision reaffirming its earlier dismissal with prejudice.

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, 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 Board argued that 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 was a legal question of first impression as to what amount the Pension Fund "certified." The trial court denied the Pension Fund's summary judgment motion. The court also granted the Board's motion for summary judgment on August 19, 2011. The Pension Fund filed an appeal of these rulings. On September 28, 2012, the Illinois Appellate Court remanded the case back to the trial court, with instructions to enter summary judgment in the Pension Funds' favor. The Court calculated the unpaid amount as \$37,716,141.59. On October 19, 2012, the Board filed a petition for rehearing with the Appellate Court. On October 24, 2012 that petition was denied. The Board filed a petition for leave to appeal with the Illinois Supreme Court on November 29, 2012, which was denied on January 30, 2013.

The case has been remanded to the trial court, and the Pension Fund recently filed a motion for judgment to be entered against the Board in the amount of \$37,716,141.59. The Board filed a response asking the court to conduct a hearing in order to determine the judgment owed by the Board because the judgment amount owed is a disputed issue of fact. It is anticipated that the hearing will occur in June 2013. We anticipate the entry of judgment against the Board between approximately \$32,000,000 and \$37,716,141.59 plus costs and interest accruing upon entry of judgment, before the end of the current fiscal year.

Chicago Teachers Union, Grievance Nos. 10-07-129 and 10-07-163. CTU 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 65% of those (850) were ultimately rehired but suffered varying periods of unemployment. The remaining approximately 35% were not rehired by the Board (439). Adverse rulings on this issue could have resulted in liability in excess of \$50 million before set offs.

The Board and CTU 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 grievance concerning the City-wide employees went to arbitration 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 were not entitled to the benefits of assignment to the Reassigned Teacher Pool or the Cadre Substitute Pool.

The Board asked CTU to accept the conclusion of the arbitrator for the other two grievances. CTU refused and insisted on trying the two other cases. Estimated exposure was originally approximately \$40 million.

In September, 2012, the CTU and the Board reached a tentative new collective bargaining agreement in which, the CTU agreed to withdraw 2010 layoff grievances. On October 24, 2012, the Board formally ratified the new collective bargaining agreement. The CTU has formally withdrawn the vast majority of the layoff grievances with prejudice. There are 16 remaining grievances, however that the Board and CTU have agreed to arbitrate. These are cases that present unique issues. These cases are currently being scheduled for individual arbitration hearings. The potential liability if the CTU prevails in all 16 of these layoff cases could be approximately \$2.5 million dollars.

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. The claims against President Vitale were dismissed in June 2012. 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 credits for State of Illinois payments to the Pension Fund in the amount of approximately \$42,900,000 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 and at the time of filing its answer, asserted an approximately \$10.4 million counterclaim based on a State payment for which it failed to take a credit. The parties are in the process of presenting cross-motions for summary judgment.

Chicago Teachers Union, Grievance No. 11-07-346. CTU filed a grievance claiming that the Board did not have the right to eliminate a 4% raise that the CTU bargaining unit was entitled to for the 2011-2012 school year. The potential exposure to the Board is estimated to be \$80 million dollars. A hearing was held before an arbitrator on July 26, 2012. As part of its strike settlement, the CTU has withdrawn this grievance with prejudice.

Chicago Teachers Union v. Chicago Board of Education, 2013-CA-0014. On September 5, 2012, the CTU filed this unfair labor practice charge alleging the Board's violation of the Illinois Educational Labor Relations Act. On October 4, 2012, the Board filed its answer to the complaint. The parties are preparing a stipulated record for submission to the Court, on which a ruling is expected after November 15, 2012. As part of its strike settlement agreement with the Board, the CTU agreed to withdraw with prejudice all of the allegations contained in the complaint except a single allegation relating to the Board's refusal to process Grievance No. 11-11-033 to arbitration. This sole remaining portion of the unfair labor practice should not result in any significant financial exposure to the Board. The record has been filed. Briefs were filed in February, 2013. The Board is awaiting a decision from the IELRB. The Board does not anticipate any significant financial exposure in this case.

Swan, et al., v. Chicago Board of Education, et al., 13 CV 3623. On May 15, 2013, a lawsuit was filed against the Board, the City of Chicago and the CEO of the Board, by three parents of Chicago Public Schools' students on behalf of their respective children and purportedly on behalf of the 5,000 students in diverse learners programs in the 53 schools proposed for closure as well as the students in welcoming schools. Each of the plaintiffs' children has an Individual Education Plan (IEP); they attend three different schools: Lafayette, Trumbull and Morgan.

Plaintiffs have filed a two-count complaint alleging violations of the Americans with Disabilities Act (ADA), and seek to enjoin the closings of the 53 schools for at least one year so that transition plans can be fully implemented. In Count I, plaintiffs claim that Defendants violated Title II of the ADA because they failed to allow additional time to carry out the closings which would result in their failure to take into account the special needs of the plaintiff children and thousands of other diverse learners. According to plaintiffs, this will cause disproportionate harm to these plaintiffs. In Count II, plaintiffs claim that defendants violated Title II of the ADA when they failed to provide reasonable accommodations by carrying out (rushing) closings for next school year. The Board intends to vigorously defend against these claims.

McDaniel, et al., v. Chicago Board of Education, et al., 13 CV 3624. On May 15, 2013, a lawsuit was filed against the Board, the City of Chicago and the CEO of the Board, by four parents of Chicago Public School students (two for the same student), on behalf of their respective children. Two of the

plaintiffs purport to bring a claim on behalf of the 5,000 children in diverse learners programs but who attend general education classes at one of the 53 schools proposed for closure. All of the plaintiffs purport to bring a claim on behalf of all other African-American children attending schools proposed for closure or who attend the welcoming schools. Two of the plaintiffs have children who have an IEP; all of the plaintiffs' children are African-American; the children attend three different schools: Manierre, Calhoun and Williams.

Plaintiffs have filed a two-count complaint alleging violations of the ADA and the Illinois Civil Rights Act (ICRA), and seek to enjoin the closings of the 53 schools. In Count I, plaintiffs claim that defendants violated Title II of the ADA because they failed to provide a reasonable accommodation to plaintiff children by keeping them "where they are" and by using criteria that are unlawful under Title II of the ADA. In Count II, plaintiffs claim that defendants violated ICRA because the Board's closing policies disproportionately impact African-American children. The Board intends to vigorously defend against these claims.

CONTINUING DISCLOSURE UNDERTAKING

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

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

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

Annual Financial Information Disclosure

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

"Annual Financial Information" means historical information generally consistent with information of the type set forth in this Official Statement under the captions "BOARD OF EDUCATION OF THE CITY OF CHICAGO – School System," "– 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. The Board has covenanted to give notice in a timely manner to EMMA of any failure to provide Annual Financial Information Disclosure when the same is due pursuant to the Undertaking.

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

Events Notification; Material Events Disclosure

The Board covenants 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 Owners, 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 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 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.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

AUTHORIZATION AND MISCELLANEOUS

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

By: /s/ Peter W. Rogers
Peter W. Rogers
Chief Financial Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

Audited Financial Statements for Fiscal Year 2012

[THIS PAGE INTENTIONALLY LEFT BLANK]



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 Chicago Public Schools (the Board of Education of the City of Chicago, "CPS", a body politic and corporate of the State of Illinois), as of and for the year ended June 30, 2012, which collectively comprise CPS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 CPS' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of CPS, as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages A-3 through A-20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CPS' basic financial statements. We also have previously audited in accordance with auditing standards generally accepted in the United States, CPS' basic financial statements for the year ended June 30, 2011, which are not presented with the accompanying financial statements. In our report dated December 9, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the 2011 information included in the comparative schedules is fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2011, taken as a whole.

McGladrey LLP

Chicago, Illinois
January 23, 2013

CHICAGO PUBLIC SCHOOLS
Management's Discussion and Analysis (Unaudited)
June 30, 2012

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, 2012. 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

On the government-wide financial statements, statement of net assets shows liabilities and deferred inflows totaling \$12.203 billion, while assets and deferred outflows equaled \$10.444 billion, with increases of \$832 and \$275 million respectively. The overall increase in total assets was primarily driven by increases in capital assets of \$313 million and higher deferred outflows of \$130 million. The increase in total liabilities resulted primarily from higher costs of pension and other postemployment benefits of \$563 million and an increase in derivative liabilities of \$130 million. CPS ended the fiscal year with a deficit of \$1.759 billion, an increase in the deficit of \$557 million or 46.3% from the prior year. The statement of activities shows decreases in total general revenues of \$149 million and \$244 million in grants and contributions, including the expiration of the American Recovery and Reinvestment Act (ARRA).

CPS ended fiscal year 2012 with a combined fund balance for its governmental funds of \$1.751 billion, an increase of \$324 million or 22.7%, from fiscal year 2011. The fund balance is classified as follows: \$9 million of non-spendable fund balance, \$584 million of restricted fund balance, \$714 million of assigned fund balance and \$444 million of unassigned fund balance. With respect to the general operating fund, its fund balance increased by \$328 million, whereas the fund balance for the capital projects fund decreased by \$94 million and the fund balance for the debt service funds increased by \$90 million. Total revenues in the general operating fund for fiscal year 2012 were \$5.216 billion, which were \$100 million or 2.0% higher than the prior year of \$5.116 billion. Total operating expenditures for fiscal year 2012 were \$4.888 billion, which were \$22 million or 0.4% lower than the prior year of \$4.910 billion.

The overall increase in fund balance in the general operating fund is primarily due to two events. Cash collections from the 2012 2nd installment of property taxes were received earlier than anticipated as a result of the change in the Cook County penalty date to August 1, 2012. In previous years, the County-set due date for payment of the 2nd installment property taxes was in November or even as late as mid-December. The earlier due date provided CPS with a more timely cash flow and the collections of \$244 million were received within CPS' 30 day availability period. Therefore, these collections were recognized as revenue in fiscal year 2012, versus being deferred until the subsequent fiscal year. In addition, due to the significant improvement in the timing of state payments, the amount owed to CPS from the State decreased by \$111 million, from \$176 million in fiscal year 2011 to \$65 million in fiscal year 2012.

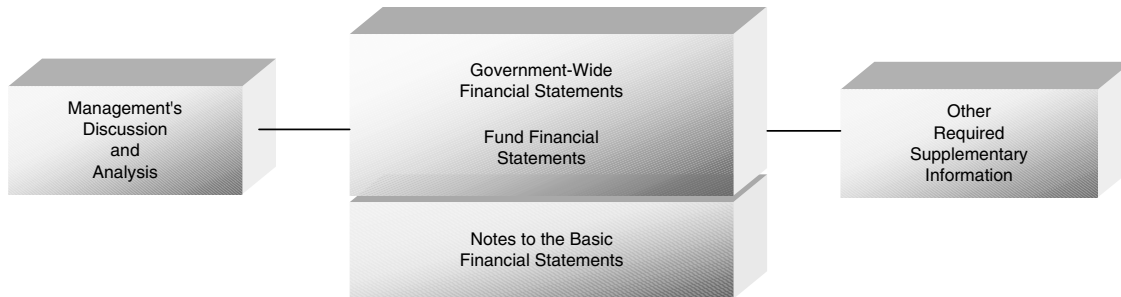
The general operating fund cash balance increased to \$1.292 billion in fiscal year 2012 from \$1.079 billion in fiscal year 2011, an increase of \$213 million.

During fiscal year 2012 CPS issued \$404 million in Unlimited Tax General Obligation Bonds, including premiums to fund the capital improvement program. Total expenditures in the capital projects fund were \$577 million in fiscal year 2012.

As of October 2012, the three major bond rating agencies had down-graded CPS' debt rating from the prior year, citing the teachers' strike, budget and pension concerns as rationales for their rating actions.

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			
	2012	2011	Difference	% Change
Current assets	\$ 3,867	\$ 3,879	\$ (12)	— 0.3%
Capital assets, net	6,100	5,787	313	5.4%
Non-current assets	477	503	(26)	— 5.2%
Total assets	<u>\$10,444</u>	<u>\$10,169</u>	<u>\$ 275</u>	2.7%
Current liabilities	\$ 1,161	\$ 1,267	\$(106)	— 8.4%
Long-term liabilities	11,042	10,104	938	9.3%
Total liabilities	<u>\$12,203</u>	<u>\$11,371</u>	<u>\$ 832</u>	7.3%
Net assets:				
Invested in capital assets net of related debt	\$ 321	\$ 370	\$ (49)	— 13.2%
Restricted for:				
Debt service	282	276	6	2.2%
Specific purposes	163	161	2	1.2%
Unrestricted	<u>(2,525)</u>	<u>(2,009)</u>	<u>(516)</u>	25.7%
Total net assets (deficit)	<u>\$ (1,759)</u>	<u>\$ (1,202)</u>	<u>\$ (557)</u>	46.3%

Current assets of \$3.867 billion decreased \$12 million or 0.3% primarily due to lower federal and state receivable balances.

Capital assets, net of depreciation of \$6.100 billion increased \$313 million or 5.4% due to higher spending on capital projects and the continued progress of the Capital Improvement Program.

Non-current assets of \$477 million decreased \$26 million or 5.2%. Deferred outflows in derivative activities and changes in the fair value of swaps increased by \$130 million, this increase is offset by a decrease in non-current cash of \$156 million.

Current liabilities of \$1.161 billion decreased \$106 million or 8.4% primarily due to a decrease in accrued payroll and benefits.

Long-term liabilities

Long-term debt increased \$335 million or 5.6%, 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 \$5.991 billion in fiscal year 2011 and \$6.326 billion in fiscal year 2012.

Accrued pension increased to \$2.619 billion in fiscal year 2012 from \$2.262 billion in fiscal year 2011, an increase of \$357 million or 15.8%. 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 \$1.336 billion in fiscal year 2012 from \$1.130 billion in fiscal year 2011, an increase of \$206 million, or 18.2%. 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, decreased to \$444 million in fiscal year 2012 from \$550 million in fiscal year 2011, a decrease of \$106 million or 19.3%. The year-end balance reflects decreases in accrued sick and vacation pay of \$112 million, offset by an increase in worker's compensation of \$6 million.

Other long-term liabilities increased to \$316 million in fiscal year 2012 from \$169 million in fiscal year 2011, an increase of \$147 million. The year-end balance reflects increases in the derivative instrument liability and swap implicit borrowing of \$130 million and \$18 million, respectively. The increases are offset by a decrease in the swaption borrowing payable of \$2 million.

Net assets (deficit) increased \$557 million to a \$1.759 billion deficit. Of this amount, \$321 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of \$445 million are reported separately to present legal constraints from debt covenants and enabling legislation. The \$2.525 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, 2012.

The following table presents the changes in net assets from fiscal year 2011 to 2012:

Changes in Net Assets
(In Millions)

	Governmental Activities			
	2012	2011	Difference	% Change
Revenues:				
Program revenues:				
Charges for services	\$ 7	\$ 7	\$ —	0.0%
Operating grants and contributions	1,196	1,368	(172)	— 12.6%
Capital grants and contributions	113	185	(72)	— 38.9%
Total program revenues	<u>\$ 1,316</u>	<u>\$ 1,560</u>	<u>\$(244)</u>	— 15.6%
General revenues:				
Property taxes	\$ 2,089	\$ 2,053	\$ 36	1.8%
Replacement taxes (PPRT)	182	198	(16)	— 8.1%
Non-program state aid	1,612	1,793	(181)	— 10.1%
Interest and investment earnings	21	17	4	23.5%
Other	147	139	8	5.8%
Total general revenues	<u>\$ 4,051</u>	<u>\$ 4,200</u>	<u>\$(149)</u>	— 3.5%
Total revenues	<u>\$ 5,367</u>	<u>\$ 5,760</u>	<u>\$(393)</u>	— 6.8%
Expenses:				
Instruction	\$ 3,743	\$ 3,713	\$ 30	0.8%
Support services:				
Pupil support services	483	545	(62)	— 11.4%
Administrative support services	193	187	6	3.2%
Facilities support services	455	499	(44)	— 8.8%
Instructional support services	473	542	(69)	— 12.7%
Food services	219	216	3	1.4%
Community services	39	47	(8)	— 17.0%
Interest expense	311	286	25	8.7%
Other	8	9	(1)	— 11.1%
Total expenses	<u>\$ 5,924</u>	<u>\$ 6,044</u>	<u>\$(120)</u>	— 2.0%
Change in net assets	<u>\$ (557)</u>	<u>\$ (284)</u>	<u>\$(273)</u>	96.1%
Beginning net assets (deficit)	<u>(1,202)</u>	<u>(918)</u>	<u>(284)</u>	30.9%
Ending net assets (deficit)	<u><u>\$(1,759)</u></u>	<u><u>\$(1,202)</u></u>	<u><u>\$(557)</u></u>	46.3%

Net assets (deficit) at June 30, 2012 reflect an increase of \$557 million from the prior year or 46.3%. Total revenues decreased \$393 million or 6.8% in FY2012. The reduction in revenues is primarily due to the expiration of the ARRA grant, a decrease in the Tax Increment Financing (TIF) revenues and a decline in revenues related to reimbursable construction projects under the Modern Schools Across Chicago (MSAC) program. The overall decline in expenditures of \$120 million or 2% compared to the prior year is primarily driven by a decrease in benefit accruals, offset by higher pension and other postemployment benefit costs.

Capital Assets

At June 30, 2012, CPS had \$6.100 billion invested in a broad range of capital assets, including land, buildings and improvements, and equipment. This amount represents a net increase of \$313 million or 5.4% over the prior fiscal year.

<i>(In Millions)</i>	<u>2012</u>	<u>2011</u>	<u>Difference</u>	<u>% Change</u>
Land	\$ 321	\$ 314	\$ 7	2.2%
Buildings	8,088	7,815	273	3.5%
Construction in progress	567	373	194	52.0%
Equipment	179	162	17	10.5%
Internally developed software	6	5	1	20.0%
Total capital assets	\$ 9,161	\$ 8,669	\$ 492	5.7%
Less: accumulated depreciation	(3,061)	(2,882)	(179)	6.2%
Total capital assets, net	<u>\$ 6,100</u>	<u>\$ 5,787</u>	<u>\$ 313</u>	5.4%

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 2011, CPS issued \$402.4 million in Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2011A at a 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. As a result of the issuance, CPS recorded net proceeds of \$401.6 million in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

In December 2011, CPS issued \$95.1 million in Unlimited Tax General Obligation Variable Rate Refunding Bonds (Series 2011C). The proceeds from these bonds were used to refund the Series 2000D bonds. As a result of the issuance, \$95.1 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 \$0.6 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. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful, as there is an uncertainty of future debt service requirements.

In December 2011, CPS issued \$95 million in Unlimited Tax General Obligation Variable Rate Refunding Bonds (Series 2011D). The proceeds from these bonds were used to refund the Series 2000C bonds. As a result of the issuance, \$95 million was deposited in a trust to refund the bonds. The debt service on this issuance will be paid from General State Aid revenues.

Because the series 2000C bonds were associated with an interest rate swap agreement, the refunding of the 2000C bonds was considered a termination event per GASB 53 and the balance (\$18.9 million)

of the deferral account attributable to the hedging relationship was included in the net carrying amount of the old debt for purposes of calculating the difference between the reacquisition price and the net carrying amount of the old debt, resulting in a total difference of \$19.7 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. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful, as there is an uncertainty of future debt service requirements.

As of June 30, 2012, CPS had \$6.423 billion in total debt, including accreted interest and capitalized lease obligations outstanding versus \$6.099 billion last year, an increase of 5.3%. 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 59.7%. CPS has recorded an estimated liability of \$2.619 billion in the accompanying financial statements, as determined under generally accepted accounting principles. Under Public Act 96-0889, CPS was required to make a \$192 million employer contribution to the Teachers' Pension Fund in FY2012.

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 2012, as in previous fiscal years, CPS paid a portion, 7.0%, or approximately \$38.4 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 year 2013 is \$196 million. 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, 2012, as compared with June 30, 2011. 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)

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>2012 Percent of Total</u>	<u>Increase (Decrease) from 2011</u>	<u>Percent Increase (Decrease) from 2011</u>
Revenues:					
Property taxes	\$2,352	\$1,937	38.2%	\$ 415	21.4%
Replacement taxes (PPRT)	182	198	3.0%	(16)	— 8.1%
State aid	1,966	1,950	31.9%	16	0.8%
Federal aid	936	1,145	15.2%	(209)	— 18.3%
Investment earnings	21	13	0.3%	8	61.5%
Other	303	417	4.8%	(114)	— 27.3%
Subtotal	<u>\$5,760</u>	<u>\$5,660</u>	<u>93.4%</u>	<u>\$ 100</u>	<u>1.8%</u>
Other financing sources	<u>404</u>	<u>384</u>	<u>6.6%</u>	<u>20</u>	<u>5.2%</u>
Total	<u>\$6,164</u>	<u>\$6,044</u>	<u>100.0%</u>	<u>\$ 120</u>	<u>2.0%</u>
Expenditures:					
Current:					
Instruction	\$2,992	\$2,956	51.2%	\$ 36	1.2%
Pupil support services	469	509	8.0%	(40)	— 7.9%
General support services	968	1,023	16.6%	(55)	— 5.4%
Food services	213	201	3.7%	12	6.0%
Community services	40	46	0.7%	(6)	— 13.0%
Teachers' pension	184	149	3.2%	35	23.5%
Other	8	9	0.1%	(1)	— 11.1%
Capital outlay	591	580	10.1%	11	1.9%
Debt service	<u>375</u>	<u>332</u>	<u>6.4%</u>	<u>43</u>	<u>13.0%</u>
Total	<u>\$5,840</u>	<u>\$5,805</u>	<u>100.0%</u>	<u>\$ 35</u>	<u>0.6%</u>
Change in fund balance	<u>\$ 324</u>	<u>\$ 239</u>			

General Operating Fund

The general operating fund supports the day-to-day operation of educational and related activities. Reflecting CPS' efforts to control costs and the fact that CPS has recognized revenues that were traditionally deferred until the next fiscal year, the general operating fund ended FY2012 with revenues and other financing sources exceeding expenditures by \$328 million. As a result, the fund balance in the general operating fund that can be used for future operations increased from \$476 million at the end of FY2011 to \$792 million as of June 30, 2012. 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 an improvement over budget assumptions for FY2012, in which expenditures exceeded revenues and transfers by \$241 million, the difference is largely the result of the acceleration of the 2nd installment of property tax payment in calendar year 2012 and a reduction in the delay of state revenue payments.

Revenues:

Revenues and Other Financing Sources (Millions of Dollars)

	2012 Amount	2011 Amount	2012 Percent of Total	Increase (Decrease) from 2011	Percent Increase (Decrease) from 2011
Property taxes	\$2,295	\$1,904	44.0%	\$ 391	20.5%
Replacement taxes (PPRT)	127	172	2.4%	(45)	– 26.2%
State aid	1,757	1,695	33.7%	62	3.7%
Federal aid	891	1,122	17.1%	(231)	– 20.6%
Investment earnings	4	2	0.1%	2	100.0%
Other Local	142	221	2.7%	(79)	– 35.7%
Subtotal	\$5,216	\$5,116	100.0%	\$ 100	2.0%
Other financing sources	—	110	0.0%	(110)	– 100.0%
Total	<u>\$5,216</u>	<u>\$5,226</u>	<u>100.0%</u>	<u>\$ (10)</u>	<u>– 0.2%</u>

Property tax revenues increased by \$391 million in FY2012 based primarily on the following two factors. First, the property tax extensions in calendar year 2011 increased by \$117 million. This increase, which included new property added to the tax base, impacted the property tax bills for the second half of the calendar year 2011, which is in CPS's fiscal year 2012. Secondly, the penalty date (due date) for the second half property tax bills of calendar year 2012 was August 1, 2012. The Cook County Treasurer received and distributed \$250 million of the second half property tax bills between July 1, 2012 and July 30, 2012. CPS has a 30 day revenue recognition policy for modified accrual accounting. The property tax distributions through July 30, 2012 were recognized as revenue in FY2012. The general operating fund's allocation totaled \$244 million with the balance recognized in the debt service fund.

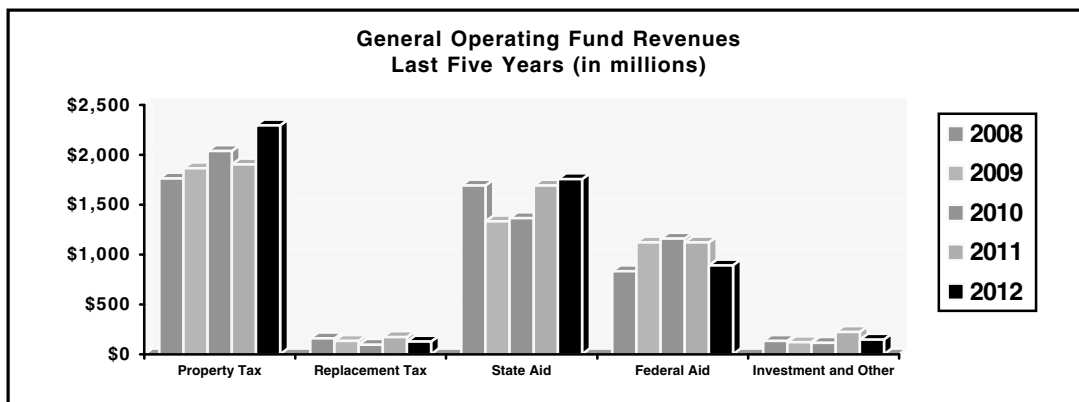
Personal property replacement taxes (PPRT) derives its revenues primarily from an additional State income tax on corporations and partnerships. These revenues decreased by \$45 million from the FY2011 level based upon the following factors. First, CPS received \$20 million of a state tax-amnesty program in FY2011, which did not reoccur in FY2012. Second, the State distributed \$91 million of refund funds that it had not used to pay for corporate refunds in the previous year, generating \$13 million in revenues for CPS in FY2012, as compared to \$27 million in FY2011. Third, corporate taxes rose in FY2012, resulting in an increase of approximately \$19 million in revenue to CPS. Finally, CPS transferred an additional \$30 million of PPRT to the debt service fund (DSF) in FY2012 as expected, returning the PPRT in the DSF to its regular level of funding.

State revenues increased by \$62 million over FY2011 primarily as a result of reduced timing delays in state payments from a three month lag to a one month lag. General State Aid increased by \$49 million because CPS allocated \$76 million less General State Aid to the debt service fund, but overall GSA decreased by \$27 million. In addition, the State Block Grants increased by \$43 million while State Teachers Pension Aid decreased by \$32 million and other smaller programs had a net increase of \$2 million.

Federal revenues decreased by \$231 million in FY2012 due primarily to the loss of \$209 million in ARRA stimulus funds as the program expired. Other major decreases included \$26 million of Headstart, \$14 million of the Title II Teacher Quality, \$5 million of Other Elementary and Secondary Act (ESEA) grants, \$4 million of Individuals with Disabilities ACT (IDEA) and \$4 million of Vocational Education. The major increases partially offsetting these were Medicaid payments of \$20 million (due to the state processing of retroactive rate adjustments), ESEA Title I Low Income of \$14 million, Title IA School Improvement of \$12 million and lunchroom revenues of \$7 million. Other programs changed by a net decrease of \$22 million.

Investment earnings — Due to the concern over the recession, the Federal Reserve Bank has kept the interest rate close to zero, which has significantly reduced earnings for the past five years. In spite of this interest rate policy, interest income increased by \$2 million due to a combination of CPS receiving property tax revenues sooner in FY2012 than FY2011 which allowed for a greater amount of investment time, a greater percentage of agency securities in the portfolio and the ability to extend the duration of the portfolio, which allows for higher yields.

Other local revenues comprise miscellaneous or one-time receipts such as Tax Increment Financing (TIF) surplus funds, 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 declined by \$79 million primarily due to a decrease in the amount of TIF surplus funds declared and distributed to tax agencies.



Expenditures:
(Millions of Dollars)

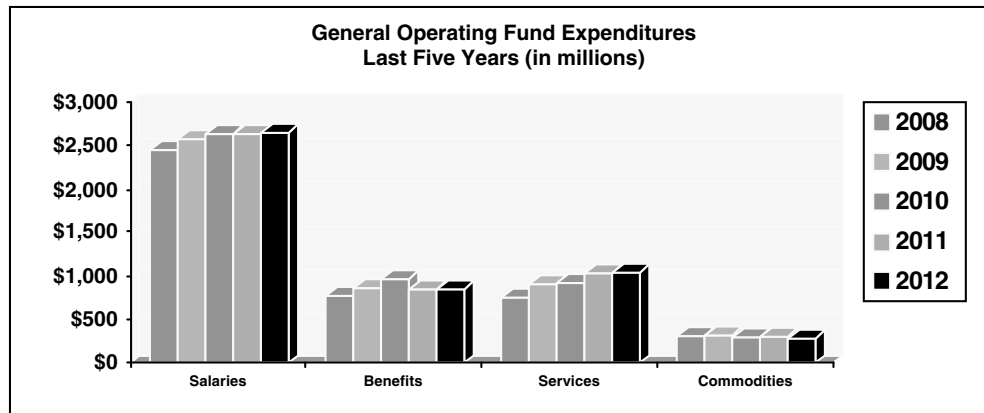
	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>2012 Percent of Total</u>	<u>Increase (Decrease) from 2011</u>	<u>Percent Increase (Decrease) from 2011</u>
Salaries	\$2,645	\$2,634	54.1%	\$ 11	0.4%
Benefits	839	845	17.2%	(6)	– 0.7%
Services	1,035	1,026	21.2%	9	0.9%
Commodities	273	299	5.6%	(26)	– 8.7%
Other	96	106	1.9%	(10)	– 9.4%
Total	<u>\$4,888</u>	<u>\$4,910</u>	<u>100.0%</u>	<u>\$(22)</u>	<u>– 0.4%</u>

Salaries — The increase of \$11 million in total salaries is due to an increase in the termination payouts based on a greater number of retirements and terminations in FY2012 as compared to FY2011. FY2012 saw an overall net increase in teacher's salaries, as well as career service salaries of \$3 million and \$8 million, respectively. Salaries are comprised of actual salary and termination payouts. In FY2012, teacher's salaries decreased by \$40 million due to a reduction in the workforce. As a result of the reduction in the workforce, as well as an increase in the number of retirements, CPS realized an increase in the overall termination payouts of \$43 million for FY2012 as compared to FY2011. The increase in the career service salaries is due to an increase in extended day and substitute services of \$2 million and an increase in termination payouts of \$6 million as compared to FY2011.

Benefit costs — The decrease of \$6 million in total benefit costs is due to the following factors. Teacher's total pension cost rose by \$30 million due to an increase in the required employer pension contribution of \$28 million and an increase of \$2 million in the required 20% pension deficiency payments as compared to FY2011. This increased cost was offset by a decrease in Career Service pension of \$2 million, a decrease in hospitalization of \$29 million and a decrease in unemployment compensation of \$5 million due to fewer reductions in force.

Services — Total services costs increased by \$9 million for the following two reasons. First, charter school tuition payments rose by \$47 million due to the addition of five new charter schools, increased student enrollment, and charter school participation in piloting the longer school day in FY2012. Second, professional fees decreased by \$38 million. This reduction is primarily attributed to a decrease in the cost of security services provided by the Chicago Police Department to CPS high schools of \$28 million as compared to FY2011. Custodial services, computer leasing and other professional services also decreased by of \$4 million, \$3 million and \$3 million, respectively.

Commodities — Total costs for commodities were \$26 million lower than last year primarily due to a decrease in textbook spending of \$21 million due to the timing of purchases between fiscal years, a decrease in energy cost of \$10 million due to lower energy demands as a result of a milder winter as compared to FY2011 and a decrease of \$5 million in purchases of school supplies. Offsetting these decreases was an increase in food cost of \$10 million primarily attributed to the first full year of the Breakfast in the Classroom program and an increase in student participation in FY2012.



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 FY2012, CPS issued one debt offering, at a premium, generating \$404 million of bond proceeds, including a premium to fund the on-going capital improvement projects, which was slightly higher than \$382 million of net bond proceeds issued in FY2011.

Revenues and Other Financing Sources (Millions of Dollars)

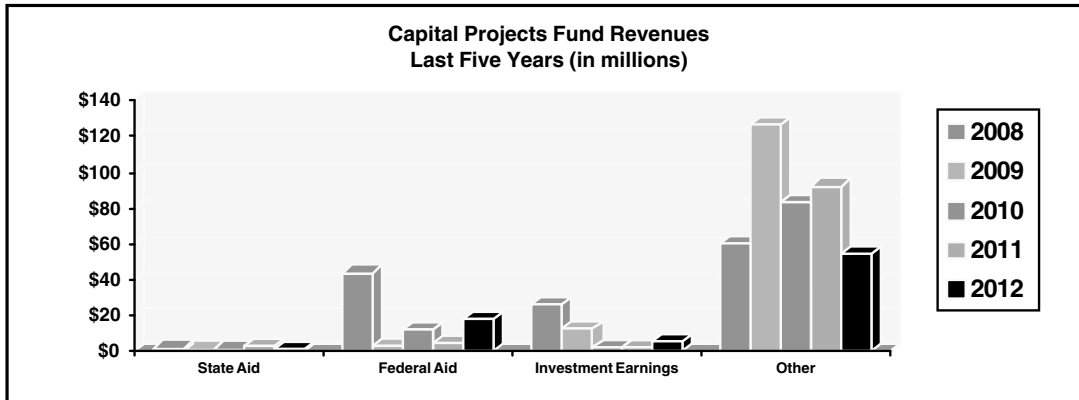
	2012 Amount	2011 Amount	2012 Percent of Total	Increase (Decrease) from 2011	Percent Increase (Decrease) from 2011
State aid	\$ 1	\$ 3	0.2%	\$ (2)	– 66.7%
Federal aid	18	4	3.7%	14	350.0%
Investment earnings	6	2	1.2%	4	200.0%
Other	54	92	11.3%	(38)	– 41.3%
Subtotal	\$ 79	\$101	16.4%	\$(22)	– 21.8%
Other financing sources	404	382	83.6%	22	5.8%
Total	<u>\$483</u>	<u>\$483</u>	<u>100.0%</u>	<u>\$ —</u>	<u>0.0%</u>

State aid — In FY2011 CPS received a grant in the amount of \$2 million for the School Energy Efficiency Project administered by the Illinois State Board of Education; however, CPS did not receive this funding in FY2012.

Federal aid — The increase of \$14 million in federal revenues is due to the fact that many previous E-rate projects were approved for funding during FY2012.

Other revenues declined by \$38 million or 41.3%. A decrease in the number of reimbursable construction projects under the Modern Schools Across Chicago (MSAC) Program compared to prior years contributed a \$36 million decrease. In addition, CPS received \$2 million of Commonwealth Edison Energy Efficiency Curtailment (CEECEC) Funds in FY2011, but not in FY2012, as the program had ended.

Other financing sources reflects a net increase of \$22 million in FY2012 due to the issuance of bond Series 2011A in the amount of \$404 million, including a premium, which was slightly higher than the \$382 million in net proceeds received from bonds issued during FY2011.

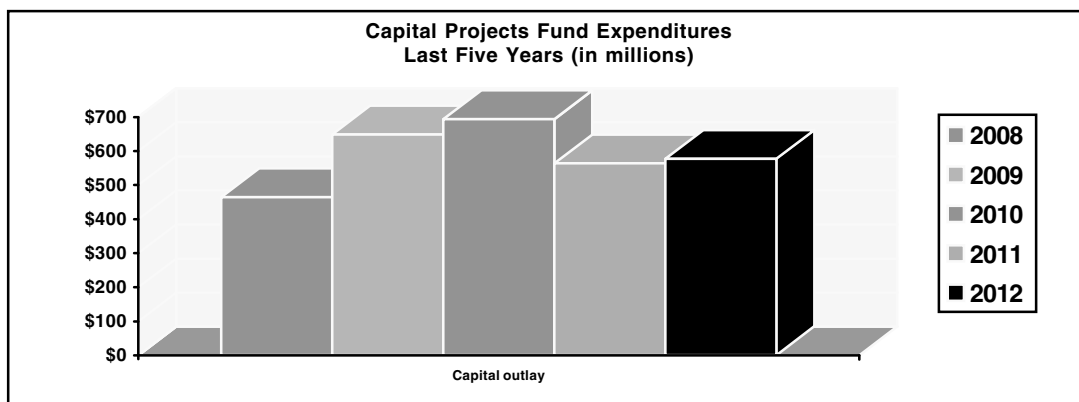


Expenditures:
(Millions of Dollars)

	2012 Amount	2011 Amount	Increase (Decrease) from 2011	Percent Increase (Decrease) from 2011
Capital Outlay	\$577	\$563	\$14	2.5%

Capital Outlay

The actual spending on capital outlay increased by \$14 million from FY2011, due to the continuation of the Capital Improvement Program.



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.

Revenues and Other Financing Sources
(Millions of Dollars)

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>2012 Percent of Total</u>	<u>Increase (Decrease) from 2011</u>	<u>Percent Increase (Decrease) from 2011</u>
Property taxes	\$ 57	\$ 33	12.3%	\$ 24	72.7%
Replacement taxes (PPRT)	55	25	11.9%	30	120.0%
State aid	207	252	44.6%	(45)	- 17.9%
Federal aid	27	19	5.8%	8	42.1%
Investment earnings	11	9	2.4%	2	22.2%
Other	107	105	23.0%	2	1.9%
Subtotal	<u>\$464</u>	<u>\$ 443</u>	<u>100.0%</u>	<u>\$ 21</u>	<u>4.7%</u>
Other financing sources (uses)	<u>—</u>	<u>(108)</u>	<u>0.0%</u>	<u>108</u>	<u>100.0%</u>
Total	<u><u>\$464</u></u>	<u><u>\$ 335</u></u>	<u><u>100.0%</u></u>	<u><u>\$129</u></u>	<u><u>38.5%</u></u>

Property tax revenues increased by \$24 million in FY2012 due to the following two reasons. First, in FY2010, CPS abated \$40 million of the Public Building Commissions (PBC) tax levy, resulting in two years of reduced funding for debt service from property taxes in FY2010 and FY2011. CPS did not abate any of the tax levy associated with the PBC lease payments in FY2011 or FY2012. The revenue from the property tax in FY2010 totaled \$11 million. In FY2011 it totaled \$33 million for an increase of \$22 million between FY2010 and FY2011. FY2012 experienced an additional increase of \$18 million, returning this revenue source to its regular level of funding. Secondly, property tax revenue increased another \$6 million in FY2012 due to the timing of the penalty date of August 1, 2012 for the second half property tax bills.

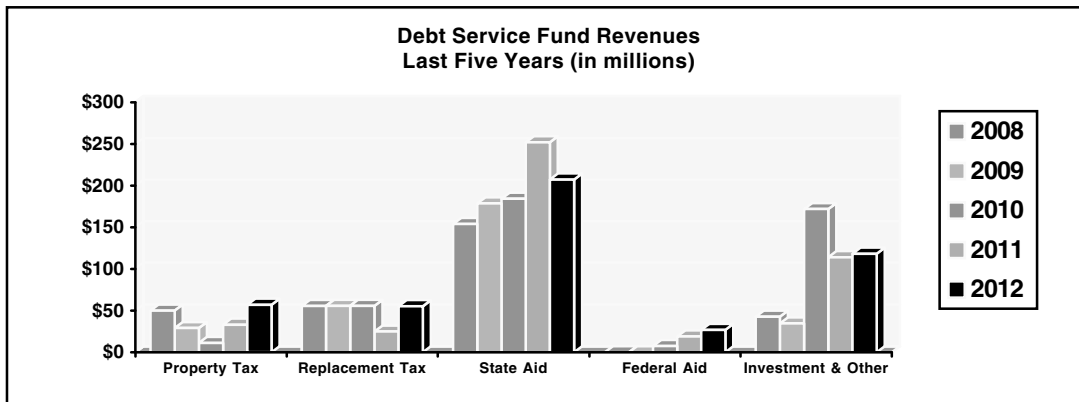
Replacement tax revenues increased by \$30 million as expected in FY2012. In FY2011, CPS restructured several bonds backed by replacement taxes which reduced the required funding for those bonds in that year. The regular level of funding returned in FY2012.

State aid used for debt service funds decreased by \$45 million in FY2012. State aid is comprised of two revenue sources, General State Aid and State Capital Development Board (CDB) funds. General state aid used to support debt service decreased by \$76 million in FY2012. The 2010FG debt restructuring in FY2011 resulted in \$44 million less of general state aid being set aside for debt service requirements in FY2012. In addition, general state aid was reduced by another \$32 million due to an increase in CDB funds used to support debt service requirements and lower fees related to debt service in FY2012 as compared to FY2011. The decreases were offset by a \$31 million increase in CDB funds used for debt service.

Federal aid increased by \$8 million related to interest subsidies from the federal government for Qualified School Construction Bonds (QSCBs) and Build America Bonds (BABs) that CPS issued in FY2009, FY2010 and FY2011. CPS was able to issue these bonds as a part of the ARRA program. FY2012 was the first year CPS received the interest subsidy for the full year on all the QSCBs and BABs debt series issued.

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 increase of \$2 million in this source is due to an increase in the IGA property tax revenues as compared to FY2011.

Other financing sources increased by \$108 million primarily due to the debt restructuring which resulted in transferring \$110 million of cash from the trustee accounts to the General Operating Fund in FY2011. No such debt restructuring occurred in FY2012.

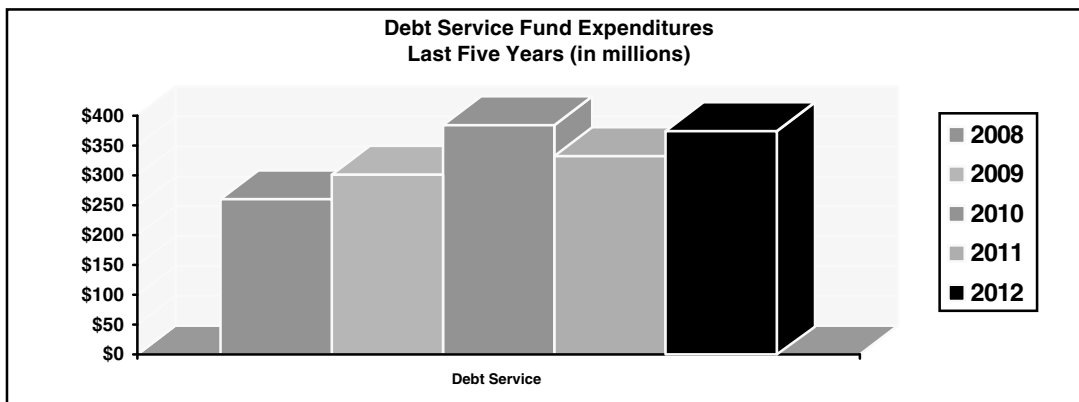


Expenditures:
(Millions of Dollars)

	2012 Amount	2011 Amount	Increase (Decrease) from 2011	Percent Increase (Decrease) from 2011
Debt service	\$374	\$332	\$42	12.7%

Debt service costs

The overall debt service cost for FY2012 increased by \$42 million due to an increase in principal redemption of \$17 million, as well as an increase in interest expense of \$26 million. These costs were offset by a reduction in other fees of \$1 million as compared to FY2011.



Notes to Basic Financial Statements

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

General Operating Fund Budget and Actual

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

The budget is prepared by unit, fund, account, program and grant. Certain funding allocations (primarily Federal and State programs, including Supplementary General State Aid) are made to schools but are not budgeted by account by the schools at the time the budget is adopted. These

allocations are included in Other Fixed Charges for budget purposes. During the fiscal year, upon receiving the appropriate approvals, 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, 2012.

The General Operating Fund ended FY2012 with a surplus of \$328 million, which compared favorably with the budgeted deficit of \$241 million. This financial performance reflects a combination of CPS' conscientious efforts to improve its financial position and revenues anticipated for the FY2013 budget that were received during the FY2012 revenue recognition period. Major budget-to-actual variances are described below:

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

	<u>FY 2012 Approved Budget</u>	<u>Transfers In/ (Out)</u>	<u>Final Appropriations</u>	<u>FY 2012 Actual</u>	<u>Variance</u>
Revenues:					
Property taxes	\$2,038	\$ —	\$2,038	\$2,295	\$ 257
Replacement taxes (PPRT)	104	—	104	127	23
State aid	1,619	—	1,619	1,757	138
Federal aid	977	—	977	891	(86)
Investment earnings	2	—	2	4	2
Other	129	—	129	142	13
Subtotal	<u>\$4,869</u>	<u>\$ —</u>	<u>\$4,869</u>	<u>\$5,216</u>	<u>\$ 347</u>
Other financing sources	—	—	—	—	—
Total	<u>\$4,869</u>	<u>\$ —</u>	<u>\$4,869</u>	<u>\$5,216</u>	<u>\$ 347</u>
Expenditures:					
Salaries	\$2,712	\$ 26	\$2,738	\$2,645	\$ (93)
Benefits	872	(33)	839	839	—
Services	994	69	1,063	1,035	(28)
Commodities	331	18	349	273	(76)
Other	201	(80)	121	96	(25)
Total	<u>\$5,110</u>	<u>\$ —</u>	<u>\$5,110</u>	<u>\$4,888</u>	<u>\$(222)</u>
Change in fund balance	<u>\$ (241)</u>			<u>\$ 328</u>	

Property tax revenues

The positive variance of \$257 million in property tax revenue is the result of \$850 million of new property coming on line compared to the \$500 million estimated at the time of the budget producing approximately \$13 million in taxes, as well as an additional \$244 million from the second half property tax bills recognized in FY2012. As discussed earlier, the penalty date (due date) for the second half property tax bills of calendar year 2012 was August 1, 2012. The Cook County Treasurer received and distributed \$250 million of the second half property tax bills between July 1, 2012 and July 30, 2012. CPS has a 30 day revenue recognition policy. The property tax distributions through July 30, 2012 were recognized as revenue in FY2012. The general operating fund's allocation totaled \$244 million with the balance recognized in the debt service fund.

Replacement tax

Replacement tax revenues were higher than budgeted by \$23 million as a result of the state distributing funds that it had not used to pay for corporate refunds in the previous year, as well as an increase in corporate taxes resulting in larger tax distributions to CPS than anticipated.

State revenues

The actual state revenues were \$138 million higher than budget primarily because the State's payment delay improved significantly. Block grant revenues totaling \$730 million exceeded the budget of \$621 million by \$109 million. In addition, revenues for General State Aid were \$18 million higher than budgeted in the operating budget because debt service requirements were lower than the budgeted amounts. A combination of smaller state grants account for the remaining variance.

Federal revenues

Federal revenues were \$86 million lower than budgeted for several reasons. Major federal grant programs were below budget because spending was below the budgeted level. Elementary and Secondary Act (ESEA) Title I Low Income revenues came in below budget by \$50 million, Title II Teacher Quality by \$18 million, Title I-A School Improvement by \$11 million, Other ESEA grants by \$8 million, Individuals with Disabilities Education Act (IDEA) by \$22 million, Head Start by \$6 million and Perkins Vocational Education by \$3 million. Moreover, \$58 million was budgeted for federal competitive grants that were not awarded. Finally, Lunchroom revenue was \$5 million below budget, offset by lower spending. Offsets include higher Medicaid reimbursement of \$33 million related to the State's processing of retroactive rate adjustments and higher ARRA revenues of \$34 million because of timing. The balance of variances result in a net increase of \$28 million for other federal programs with smaller changes.

Investment earnings

The interest income of \$4 million in FY2012 was above the \$2 million budgeted due to a combination of CPS receiving property tax revenues earlier in FY2012 than FY2011 which allowed for a greater amount of investment time, a greater percentage of agency securities in the portfolio, and the ability to extend the duration of the portfolio, which allowed for higher yields.

Other revenues

Other local revenues comprise miscellaneous or one-time receipts such as Tax Increment Financing (TIF) surplus funds, 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 \$13 million over budget primarily because CPS received additional TIF surplus funds declared by the City of Chicago.

Actual General Operating Fund expenditures were \$222 million under budget. The variance is primarily due to:

Salary

Teacher salary expenditures were \$70 million, or 3.3%, below budget and Career Service employee salaries were approximately \$23 million, or 3.5%, below budget, for a total of \$93 million. In both cases, this is because of higher than budgeted turnover. Additionally, amounts budgeted in federal Title I funds for teacher payments for supplemental work, such as professional development time, were unspent. These decreases are partially offset by larger than budgeted costs for sick and vacation payments upon termination, as a result of increased retirements. FY2012 was the last year of a pension enhancement program, and therefore CPS experienced a greater than typical number of retirements.

Services expenditure

Expenditures for services include student transportation costs, tuition for charter schools and special education institutions, contractual and professional services, telephone, printing and equipment rental. FY2012 costs for services totaled \$1.035 billion, which is lower than the budget by \$28 million. Tuition payments to private facilities and to charter schools were below budget by \$18 million because enrollment was below projections. Transportation which includes student busing, travel, and car fare came in below budget by \$6 million. Professional fees and Other Services were both below budget by \$3 million. The only increase over budget was in Telephone and Telecommunications by \$2 million.

Commodities

Spending on commodities was lower than budget by \$76 million for several reasons. First, food expenditures were lower than the budget by \$10 million. Second, because of the lower costs and moderate weather, total utility costs came in under budget by \$7 million. Third, contingency for the supplemental GSA fund was budgeted at \$17 million for textbooks and \$10 million for supplies, these funds were not expended. Finally, schools spent \$32 million less than what was budgeted for textbooks, supplies, and other commodities in FY2012.

Other charges

Other 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. Expenditures for other fixed charges were below budget by \$25 million. Actual payments for building repair costs were under budget by \$6 million, equipment spending by \$4 million and insurance and settlements by \$4 million. Other appropriations of \$11 million that were held as contingencies for potential grants were not spent because the grants were not received.

Comparative Budgets for 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.

In November 2012, the Board adopted a balanced budget for fiscal year 2013 that reflected total resources, including \$432 million of available fund balances, and appropriations of \$5.232 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, 2012
(Thousands of Dollars)

	GOVERNMENTAL ACTIVITIES
Assets:	
Current assets:	
Cash and investments	\$ 1,470,892
Cash and investments in escrow	435,650
Cash and investments held in school internal accounts	34,026
Property taxes receivable, net of allowance	996,968
Other receivables:	
Replacement taxes	33,182
State aid, net of allowance	613,199
Federal aid	202,462
Other, net of allowance	40,533
Other assets	39,664
Total current assets:	\$ 3,866,576
Non-current assets:	
Cash and investments in escrow	213,821
Land and construction in progress	887,236
Buildings and improvements, equipment, and software, net of accumulated depreciation . . .	5,212,968
Derivative instrument	1,278
Deferred outflow of resources	261,804
Total non-current assets:	\$ 6,577,107
Total assets	<u>\$10,443,683</u>
Liabilities:	
Current liabilities:	
Accounts payable	\$ 494,371
Accrued payroll and benefits	498,598
Amount held for student activities	34,026
Other accrued liabilities	8,964
Unearned revenue	3,686
Interest payable	25,108
Current portion of long-term debt and capitalized lease obligations	96,251
Total current liabilities:	\$ 1,161,004
Long-term liabilities, net of current portion:	
Debt, net of premiums and discounts	6,057,478
Capitalized lease obligations	269,080
Derivative instrument liability	263,538
Swaption borrowing payable	34,174
Swap implicit borrowing	18,471
Other accrued liabilities	184
Pension	2,618,836
Other postemployment benefits	1,335,928
Other benefits and claims	444,100
Total long-term liabilities:	\$11,041,789
Total liabilities	<u>\$12,202,793</u>
Net assets:	
Invested in capital assets, net of related debt	\$ 321,391
Restricted for:	
Debt service	282,253
Grants and donations	70,302
Workers' comp/tort immunity	92,680
Unrestricted (deficit)	(2,525,736)
Total net assets (deficit)	<u>\$ (1,759,110)</u>

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

(Thousands of Dollars)

		Program Revenues			Net (Expense) Revenue and Changes in Net Aseets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	\$3,742,788	\$ 727	\$ 478,364	\$ 73,732	\$(3,189,965)
Support services:					
Pupil support services	483,167	—	54,957	11,565	(416,645)
Administrative support services	192,605	—	69,354	4,610	(118,641)
Facilities support services	455,342	—	285,419	9,911	(160,012)
Instructional support services	473,202	—	79,398	9,322	(384,482)
Food services	219,382	6,083	189,889	3,180	(20,230)
Community services	38,941	—	38,692	594	345
Interest expense	310,452	—	—	—	(310,452)
Other	8,115	—	—	—	(8,115)
Total governmental activities	<u>\$5,923,994</u>	<u>\$6,810</u>	<u>\$1,196,073</u>	<u>\$112,914</u>	<u>\$(4,608,197)</u>
General revenues:					
Taxes:					
Property taxes					\$ 2,089,016
Replacement taxes					181,927
Non-program state aid					1,611,726
Interest and investment earnings					20,683
Other					147,550
Total general revenues					<u>\$ 4,050,902</u>
Change in net assets					\$ (557,295)
Net assets — beginning (deficit)					<u>(1,201,815)</u>
Net assets — ending (deficit)					<u>\$(1,759,110)</u>

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

CHICAGO PUBLIC SCHOOLS**Chicago Board of Education****BALANCE SHEET — GOVERNMENTAL FUNDS****June 30, 2012****(Thousands of Dollars)**

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Totals
Assets:				
Cash and investments	\$1,252,284	\$ —	\$218,608	\$1,470,892
Cash and investments in escrow	5,231	279,505	364,735	649,471
Cash and investments held in school internal accounts	34,026	—	—	34,026
Receivables:				
Property taxes, net of allowance	972,406	—	24,562	996,968
Replacement taxes	33,182	—	—	33,182
State aid, net of allowance	612,013	1,186	—	613,199
Federal aid	199,132	1	3,329	202,462
Other, net of allowance	14,364	18,137	8,032	40,533
Due from other funds	135,159	54	1,380	136,593
Other assets	2,907	—	5,674	8,581
Total assets	\$3,260,704	\$298,883	\$626,320	\$4,185,907
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ 417,314	\$ 65,684	\$ 11,373	\$ 494,371
Accrued payroll and benefits	399,792	—	—	399,792
Amount held for student activities	34,026	—	—	34,026
Due to other funds	1,434	135,159	—	136,593
Deferred property tax revenue	733,637	—	18,460	752,097
Other deferred/unearned revenue	605,747	9,278	3,329	618,354
Total liabilities	\$2,191,950	\$210,121	\$ 33,162	\$2,435,233
Fund balances:				
Nonspendable	\$ 3,329	\$ —	\$ 5,674	\$ 9,003
Restricted for grants and donations	69,873	—	—	69,873
Restricted for workers' comp/tort immunity	92,680	—	—	92,680
Restricted for capital improvement program	—	88,762	—	88,762
Restricted for debt service	—	—	332,517	332,517
Assigned for appropriated fund balance	348,900	—	—	348,900
Assigned for debt service	—	—	254,967	254,967
Assigned for commitments and contracts	110,397	—	—	110,397
Unassigned	443,575	—	—	443,575
Total fund balances	\$1,068,754	\$ 88,762	\$593,158	\$1,750,674
Total liabilities and fund balances	\$3,260,704	\$298,883	\$626,320	\$4,185,907

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, 2012****(Thousands of Dollars)**

Total fund balances — governmental funds	\$ 1,750,674
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	31,083
Derivative instrument	1,278
Deferred outflow of resources applicable to CPS' governmental activities are not expected to be realized in the current period and accordingly are not reported on the fund financial statements	
	261,804
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 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	9,160,913
Accumulated depreciation	(3,060,709)
Liabilities applicable to CPS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Debt, 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	\$ (8,964)
Debt, net of premiums and discounts	(6,121,104)
Capitalized lease obligations	(301,705)
Pension	(2,618,836)
Other postemployment benefits	(1,335,928)
Other benefits and claims	(542,906)
	(10,929,443)
Interest payable	(25,108)
Arbitrage liability — long term	(184)
Swaption borrowing payable	(34,174)
Swap — implicit borrowing	(18,471)
Derivative instrument liability	(263,538)
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	752,097
Other deferred/unearned revenue	614,668
Net assets (deficit)	<u>\$ (1,759,110)</u>

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

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

For the Fiscal Year Ended June 30, 2012

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

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2012	Total Fiscal Year Ended June 30, 2011
Revenues:					
Property taxes	\$2,295,178	\$ —	\$ 56,958	\$2,352,136	\$1,936,655
Replacement taxes	126,786	—	55,141	181,927	197,762
State aid	1,757,166	1,258	207,477	1,965,901	1,949,781
Federal aid	890,987	18,124	26,840	935,951	1,144,884
Interest and investment earnings	4,363	5,530	10,867	20,760	13,399
Other	142,160	54,209	107,375	303,744	417,516
Total revenues	\$5,216,640	\$ 79,121	\$ 464,658	\$5,760,419	\$5,659,997
Expenditures:					
Current:					
Instruction	\$2,992,481	\$ —	\$ —	\$2,992,481	\$2,955,772
Pupil support services	469,366	—	—	469,366	508,803
Administrative support services	187,104	—	—	187,104	174,964
Facilities support services	402,247	—	—	402,247	416,765
Instructional support services	378,341	—	—	378,341	431,275
Food services	213,115	—	—	213,115	201,325
Community services	39,794	—	—	39,794	45,848
Teachers' pension and retirement benefits	183,499	—	—	183,499	149,377
Other	8,115	—	—	8,115	8,845
Capital outlay	14,266	576,882	—	591,148	580,363
Debt service	—	—	374,494	374,494	332,097
Total expenditures	\$4,888,328	\$ 576,882	\$ 374,494	\$5,839,704	\$5,805,434
Revenues in excess of (less than) expenditures	\$ 328,312	\$(497,761)	\$ 90,164	\$ (79,285)	\$ (145,437)
Other financing sources (uses):					
Gross amounts from debt issuances	\$ —	\$ 402,410	\$ 190,100	\$ 592,510	\$ 638,790
Premiums	—	1,229	—	1,229	14,700
Payment to refunded bond escrow agent	—	—	(190,100)	(190,100)	(269,483)
Transfers in / (out)	62	—	(62)	—	—
Total other financing sources (uses)	\$ 62	\$ 403,639	\$ (62)	\$ 403,639	\$ 384,007
Net change in fund balances	\$ 328,374	\$ (94,122)	\$ 90,102	\$ 324,354	\$ 238,570
Fund balances, beginning of period	740,380	182,884	503,056	1,426,320	1,187,750
Fund balances, end of period	\$1,068,754	\$ 88,762	\$ 593,158	\$1,750,674	\$1,426,320

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, 2012****(Thousands of Dollars)**

Total net change in fund balances — governmental funds	\$324,354
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	\$ 553,854
Depreciation expense	(236,040)
	317,814
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	(593,739)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets	278,741
Changes in fair value of investment derivatives is reported as investment earnings on the statement of activities, but is not reported in the fund financial statements	(77)
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	(27,220)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities	2,659
Revenue in the Statement of Activities that does not provide current financial resources are not reported as revenue in the funds.	
Contributed capital assets	688
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	(263,121)
Grants	(131,248)
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 measured by the amount due. The following represents the change during the year for these obligations.	
Pollution remediation obligation	1,585
Sick pay	105,130
Vacation pay	871
Workers' compensation	(5,561)
General and automobile liability	(55)
Net pension obligation	(356,826)
Other postemployment benefits — teacher	(205,731)
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	(5,559)
Change in net assets	<u><u>\$(557,295)</u></u>

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF REVENUES, EXPENDITURES 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, 2012 (Thousands of Dollars)

	Original Budget	Transfers In / (Out)	Final Budget	Fiscal Year Actual	Over (under) Budget
Revenues:					
Property taxes	\$2,038,000	\$ —	\$2,038,000	\$2,295,178	\$ 257,178
Replacement taxes	103,560	—	103,560	126,786	23,226
State aid	1,619,242	—	1,619,242	1,757,166	137,924
Federal aid	977,317	—	977,317	890,987	(86,330)
Interest and investment income	2,100	—	2,100	4,363	2,263
Other	128,891	—	128,891	142,160	13,269
Total revenues	\$4,869,110	\$ —	\$4,869,110	\$5,216,640	\$ 347,530
Expenditures:					
Salaries —					
Teachers	\$2,082,768	\$ 13,754	\$2,096,522	\$2,026,832	\$ (69,690)
Career services	628,859	11,842	640,701	618,265	(22,436)
Commodities —					
Energy	82,590	(2,578)	80,012	73,409	(6,603)
Food	112,250	1,903	114,153	104,245	(9,908)
Textbooks	74,121	12,110	86,231	49,147	(37,084)
Supplies	61,550	6,660	68,210	45,521	(22,689)
Other	477	292	769	583	(186)
Services —					
Professional fees	374,772	40,202	414,974	412,072	(2,902)
Charter schools	423,735	14,445	438,180	424,423	(13,757)
Transportation	110,254	4,858	115,112	109,368	(5,744)
Tuition	53,817	5,491	59,308	55,001	(4,307)
Telephone and telecommunications	20,821	913	21,734	23,451	1,717
Other	10,367	3,766	14,133	11,010	(3,123)
Equipment — educational	33,881	11,258	45,139	40,938	(4,201)
Building and sites —					
Repairs and replacements	37,865	1,632	39,497	33,912	(5,585)
Capital outlay	—	85	85	43	(42)
Fixed charges —					
Teachers' pension	339,335	(4,047)	335,288	335,657	369
Career service pension	99,796	(1,542)	98,254	100,026	1,772
Hospitalization and dental insurance	348,352	(23,488)	324,864	324,918	54
Medicare	37,631	(2,277)	35,354	34,900	(454)
Unemployment compensation	16,825	(411)	16,414	17,141	727
Workers compensation	30,043	(740)	29,303	26,042	(3,261)
Rent	11,684	312	11,996	11,745	(251)
Other	118,417	(94,440)	23,977	9,679	(14,298)
Total expenditures	\$5,110,210	\$ —	\$5,110,210	\$4,888,328	\$(221,882)
Revenues in excess of (less than) expenditures	\$ (241,100)	\$ —	\$ (241,100)	\$ 328,312	\$ 569,412
Other financing sources					
Transfers in	\$ —	\$ —	\$ —	\$ 62	\$ 62
Total other financing sources	\$ —	\$ —	\$ —	\$ 62	\$ 62
Net change in fund balance	\$ (241,100)	\$ —	\$ (241,100)	\$ 328,374	\$ 569,474
Fund balance, beginning of period	740,380	—	740,380	740,380	—
Fund balance, end of period	\$ 499,280	\$ —	\$ 499,280	\$1,068,754	\$ 569,474

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2012

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. 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 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 2012, CPS adopted the following GASB Statements:

- GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions — An Amendment to GASB Statement No. 53*, which had no impact on the current year financial statements. 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.

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 ending 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 of Resources, and Net Position*, will be effective for CPS beginning with its year ending June 30, 2013. The

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 65, *Items Previously Reported as Assets and Liabilities*, will be effective for CPS beginning with its year ending June 30, 2014. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.
- GASB 66, *Technical Corrections – 2012, an Amendment of GASB Statements 10 and 62*, will be effective for CPS beginning with its year ending June 30, 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
- GASB 67, *Financial Reporting for Pension Plans, an Amendment of GASB 25*, will be effective for CPS beginning with its year ending June 30, 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria.
- GASB 68, *Accounting and Financial Reporting for Pensions*, will be effective for CPS beginning with its year ending June 30, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

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 non-exchange transactions are recognized in accordance with the GASB requirements of accounting and financial reporting for non-exchange transactions.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 CPS. Interfund balances have been removed from these statements.

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. Measurable means that the amount of the transaction can be determined. 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, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (PBC) 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 CPS, at the end of the lease terms.

Assets, Liabilities, and Net Assets or Fund Balances

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Assets

Certain proceeds of 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 its property taxes receivable amounts equal to the current year tax levy 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 2011 property taxes were levied for fiscal year 2012 in December 2011 and were billed in fiscal year 2012. In 2012, the installment due dates were March 1 and August 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 CPS, receive collections of property tax installments. CPS' property tax becomes a lien on real property on January 1 of the year for which it is levied. 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. CPS also capitalizes internally developed software with a capitalization threshold of \$75,000 or more.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

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 2012.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of buildings and building improvements of 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. CPS' capital assets have the following estimated useful lives:

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

Vacation and Sick Pay

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. Principal payments, 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. Swaps are reported at fair value and if they meet the definition of hedge, then a like amount is reported as a deferred item in the Statement of Net Assets. If the swaps are not hedging, the offset is reported in the Statement of Activities. Swaps are not reported in the fund financial statements.

Fund Balances

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed — includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of CPS' highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless CPS removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. CPS' highest level of decision-making authority rests with CPS' Board of Education. CPS passes formal resolutions to commit their fund balances. There are no committed fund balances as of June 30, 2012.

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 assigns 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 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.

Restricted for grants and donations — 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 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.

Restricted for workers' comp/tort immunity — the component of net assets that reports the difference between assets and liabilities of the certain programs that consist of assets with 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrestricted — consists of net assets that do not meet the criteria of the three preceding categories.

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, 2011, from which the summarized information was derived.

Management's Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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 2012. 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.

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

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

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

Amounts collected in excess of the estimated net receivable for each levy year are reported as revenue in the fiscal year that the tax collections are distributed to CPS. Tax amounts collected in excess of the specified prior years' levies are recorded in the year of receipt without impacting receivable and deferred revenue balances. CPS maintains the accounts receivable, reserves for uncollectibles and deferred revenue balance on the general ledger for three tax levy years. All refunds, regardless of the applicable tax year, 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 2012 and 2011 are shown below.

	Maximum 2012 Legal Limit	Tax Rates Extended Per \$100 of EAV	
		2012	2011
General Operating Fund:			
Educational	(A)	\$2.671	\$2.449
Workers' and Unemployment Compensation/Tort Immunity	(B)	0.133	0.067
Debt Service Fund:			
Public Building Commission Leases Program	(C)	0.071	0.065
		<u>\$2.875</u>	<u>\$2.581</u>

- 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.

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

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

	Fund Financial Statements	Government Wide- Financial Statements
Revenues:		
General state aid unrestricted	\$ 875,472	\$ 875,453
Supplementary general state aid	261,000	261,000
General education block grant	32,604	—
Educational services block grant	553,273	475,273
Other restricted state revenue	243,552	240,795
Total state aid	<u>\$1,965,901</u>	<u>\$1,852,521</u>
Program Revenues:		
Operating grants and contributions		(240,795)
Non-program general state aid		<u>\$1,611,726</u>

NOTE 4. CASH DEPOSITS AND INVESTMENTS

Cash and investments held in the name of CPS are controlled and managed by CPS' Treasury Department; however, custody is maintained by the Treasurer of the City of Chicago, who is the designated ex-officio Treasurer of 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.

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 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 only be comprised of those securities authorized as allowable investments.

As of June 30, 2012, the book amount of CPS' deposit accounts was \$219.0 million. The bank balances totaled \$239.8 million as of June 30, 2012. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2012. The bank balance was covered by Federal Depository Insurance and by collateral held by third-party custodians.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

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

Investments

CPS' investments are authorized under the Illinois Compiled Statutes Finance Investment Act. CPS' Investment Policy is derived from this Act. 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 CPS' Investment Policy and meet certain other regulatory requirements.

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, 2012, 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/AA+/AAA	\$ 70,605	\$ 70,605	\$ —
U.S. government agency securities	Aaa/AA+/AAA	748,146	20,574	727,572
U.S. treasury notes	Aaa/AA+/AAA	51,514	17,246	34,268
Banker's acceptance	A1 / P-1	18,822	18,822	—
Commercial paper	A1 / P-1	164,796	164,796	—
Money market mutual funds	AAA	881,458	881,458	—
Total investments		<u>\$1,935,341</u>	<u>\$1,173,501</u>	<u>\$761,840</u>
Cash		219,048		
Total cash and investments		<u>\$2,154,389</u>		

Credit risk — State law and 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 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, 2012, CPS' investments in banker's acceptances and commercial paper were rated A1 by Standard and Poor's and P-1 by Moody's. As of June 30, 2012, Standard and Poor's rated CPS' investments in money market mutual funds AAA as required by CPS' Investment Policy.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

Concentration of credit risk — As of June 30, 2012, 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, 2012, 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 CPS' Investment Policy. Third-party custodians held all collateral in CPS' name.

Interest rate risk — 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, 2012 (\$000's):

Fund:	Amount
General Operating Fund	\$1,291,541
Capital Projects Fund	279,505
Debt Service Fund	583,343
Total cash and investments	<u>\$2,154,389</u>

NOTE 5. RECEIVABLES AND DEFERRED REVENUE

Receivables as of June 30, 2012 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	\$1,046,129	\$ —	\$26,424	\$1,072,553	\$1,072,553
Replacement taxes	33,182	—	—	33,182	33,182
State aid	615,855	1,186	—	617,041	617,041
Federal aid	199,132	1	3,329	202,462	202,462
Other	17,677	18,137	8,032	43,846	43,846
Total receivables	\$1,911,975	\$19,324	\$37,785	\$1,969,084	\$1,969,084
Less: Allowance for uncollectibles — property tax	(73,723)	—	(1,862)	(75,585)	(75,585)
Less: Allowance for uncollectibles — state aid	(3,842)	—	—	(3,842)	(3,842)
Less: Allowance for uncollectibles — other	(3,313)	—	—	(3,313)	(3,313)
Total receivables, net	<u>\$1,831,097</u>	<u>\$19,324</u>	<u>\$35,923</u>	<u>\$1,886,344</u>	<u>\$1,886,344</u>

NOTE 5. RECEIVABLES AND DEFERRED REVENUE (continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 2012, the components of deferred revenue reported in the fund financial statements are as follows (\$000's):

Deferred property taxes	\$ 752,097
Other deferred revenue	615,412
Unearned revenue	2,942
Total deferred revenue	<u>\$1,370,451</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 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	\$ 313,766	\$ 6,739	\$ —	\$ 320,505
Construction in progress	372,778	415,324	(221,371)	566,731
Total capital assets not being depreciated	<u>\$ 686,544</u>	<u>\$ 422,063</u>	<u>\$(221,371)</u>	<u>\$ 887,236</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 7,815,372	\$ 334,982	\$ (61,857)	\$ 8,088,497
Equipment and administrative software	162,102	17,576	(630)	179,048
Internally developed software	4,839	1,293	—	6,132
Total capital assets being depreciated ...	<u>\$ 7,982,313</u>	<u>\$ 353,851</u>	<u>\$(62,487)</u>	<u>\$ 8,273,677</u>
Total capital assets	<u>\$ 8,668,857</u>	<u>\$ 775,914</u>	<u>\$(283,858)</u>	<u>\$ 9,160,913</u>
Less accumulated depreciation for:				
Buildings and improvements	\$(2,831,867)	\$(225,541)	\$ 56,297	\$(3,001,111)
Equipment and administrative software	(48,594)	(8,886)	630	(56,850)
Internally developed software	(1,135)	(1,613)	—	(2,748)
Total accumulated depreciation	<u>\$(2,881,596)</u>	<u>\$(236,040)</u>	<u>\$ 56,927</u>	<u>\$(3,060,709)</u>
Capital assets, net of depreciation	<u>\$ 5,787,261</u>	<u>\$ 539,874</u>	<u>\$(226,931)</u>	<u>\$ 6,100,204</u>

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

Governmental activities:	
Instruction	\$152,143
Pupil support services	23,863
Administrative support services	9,513
Facilities support services	20,451
Instructional support services	19,235
Food services	10,835
Total depreciation	<u>\$236,040</u>

NOTE 6. CAPITAL ASSETS (continued)

Construction Commitments

CPS had active construction projects as of June 30, 2012. These projects include new construction and renovations of schools. At year-end, CPS had approximately \$88.8 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 to/from 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	\$ 135,159
Due to Capital Asset Program	(54)
Due to Bond Redemption and Interest Program	(1,380)
Total — Due from other funds	<u>\$ 133,725</u>
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	\$ 54
Capital Improvement Program — Due to General Operating Fund	(135,159)
Total — Due to other funds	<u>\$(135,105)</u>
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund	<u>\$ 1,380</u>

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

Transfers

In fiscal year 2012, CPS transferred to the General Operating Fund \$0.06 million of interest earnings and unused cost of issuance funds from the Debt Service Fund.

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

CPS issued the following bonds in fiscal year 2012:

Unlimited Tax General Obligation Bonds (Series 2011A)

In October 2011, CPS issued \$402.4 million in Unlimited Tax General Obligation Bonds (Dedicated Revenues) Series 2011A at a 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. As a result of the issuance, CPS recorded net proceeds of \$401.6 million in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

NOTE 8. LONG-TERM DEBT (continued)

Unlimited Tax General Obligation Refunding Bonds (Series 2011C)

In December 2011, CPS issued \$95.1 million in Unlimited Tax General Obligation Variable Rate Refunding Bonds (Series 2011C). The proceeds from these bonds were used to refund the Series 2000D bonds. As a result of the issuance, \$95.1 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 \$0.6 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. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful, as there is an uncertainty of future debt service requirements.

Unlimited Tax General Obligation Refunding Bonds (Series 2011D)

In December 2011, CPS issued \$95 million in Unlimited Tax General Obligation Variable Rate Refunding Bonds (Series 2011D). The proceeds from these bonds were used to refund the Series 2000C bonds. As a result of the issuance, \$95 million was deposited in a trust to refund the bonds. The debt service on this issuance will be paid from General State Aid revenues.

Because the series 2000C bonds were associated with an interest rate swap agreement, the refunding of the 2000C bonds was considered a termination event per GASB 53 and the balance (\$18.9 million) of the deferral account attributable to the hedging relationship was included in the net carrying amount of the old debt for purposes of calculating the difference between the reacquisition price and the net carrying amount of the old debt, resulting in a total difference of \$19.7 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. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful, as there is an uncertainty of future debt service requirements.

NOTE 8. LONG-TERM DEBT (continued)

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

Series	Original Amount Issued	Debt Purpose	Interest Rate	Final Maturity	Principal Outstanding June 30, 2011	Accreted Interest
2011D	\$ 95,000	Refunding	Variable	3/1/2032	\$ —	\$ —
2011C	95,100	Refunding	Variable	3/1/2032	—	—
2011A	402,410	Capital Improvement	5.00% to 5.50%	12/1/2041	—	—
2010G	72,915	Refunding	2.77% to 4.18%	12/1/2017	72,915	—
2010F	183,750	Refunding	5.00%	12/1/2031	183,750	—
2010D	125,000	Capital Improvement	6.52%	3/1/2036	125,000	—
2010C	257,125	Capital Improvement	6.32%	11/1/2029	257,125	—
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	23,750	—
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	63,210	—
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	214,175	—
2008A	262,785	Refunding	Variable	12/1/2030	262,785	—
2007D	238,720	Capital Improvement	4.00% to 5.00%	12/1/2029	203,865	—
2007BC	204,635	Refunding	4.125% to 5.00%	12/1/2024	203,715	—
2006B	355,805	Capital Improvement	4.25% to 5.00%	12/1/2036	320,775	—
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	202,420	—
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	6,795	—
2002A	48,970	Capital Improvement	3.00% to 5.25%	12/1/2022	42,540	—
2001B	9,440	Capital Improvement	0.00%	10/23/2015	9,440	—
2000E	13,390	Capital Improvement	0.00%	12/18/2013	13,390	—
2000B,C,D	303,000	Capital Improvement	Variable	3/1/2032	285,200	—
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	481,668	217,600
1998B-1	328,714	Capital Improvement	4.55% to 5.22%	12/1/2031	294,046	267,035
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	40,500
Total Bonds					\$5,249,147	\$525,135
Less Current Portion						
Deferred Amounts:						
On Refunding						
For Net Premium/ (Discount)						
Total Long-term Debt, net of Current Portion and Premium/Discount						

NOTE 8. LONG-TERM DEBT (continued)

Principal and Accreted Interest June 30, 2011	Issuances	Retirements	Principal Outstanding June 30, 2012	Accreted Interest	Principal and Accreted Interest June 30, 2012
\$ —	\$ 95,000	\$ —	\$ 95,000	\$ —	\$ 95,000
—	95,100	—	95,100	—	95,100
—	402,410	—	402,410	—	402,410
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
23,750	—	—	23,750	—	23,750
518,210	—	—	518,210	—	518,210
63,210	—	—	63,210	—	63,210
75,410	—	—	75,410	—	75,410
130,000	—	—	130,000	—	130,000
464,655	—	—	464,655	—	464,655
214,175	—	—	214,175	—	214,175
262,785	—	—	262,785	—	262,785
203,865	—	—	203,865	—	203,865
203,715	—	(330)	203,385	—	203,385
320,775	—	—	320,775	—	320,775
6,853	—	—	6,853	—	6,853
52,595	—	—	52,595	—	52,595
193,585	—	—	193,585	—	193,585
12,500	—	(260)	12,240	—	12,240
202,420	—	—	202,420	—	202,420
4,585	—	—	4,585	—	4,585
6,795	—	—	6,795	—	6,795
42,540	—	(2,315)	40,225	—	40,225
9,440	—	—	9,440	—	9,440
13,390	—	—	13,390	—	13,390
285,200	—	(190,100)	95,100	—	95,100
12,000	—	(12,000)	—	—	—
699,268	—	(13,984)	467,684	229,940	697,624
561,081	—	(7,650)	286,396	289,493	575,889
14,000	—	(14,000)	—	—	—
78,485	—	(7,332)	30,653	36,423	67,076
<u>\$5,774,282</u>	<u>\$592,510</u>	<u>\$(247,971)</u>	<u>\$5,593,686</u>	<u>\$555,856</u>	<u>\$6,149,542</u>
.....					(63,626)
.....					(119,701)
.....					91,263
.....					<u>\$6,057,478</u>

NOTE 8. LONG-TERM DEBT (continued)

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

Bonds	\$(40,973)
Accreted interest	(30,577)
Refunding	7,924
Subtotal	\$(63,626)
Lease obligations	(32,625)
Total current portion	<u>\$(96,251)</u>

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

Revenue from the City of Chicago is based on an Intergovernmental agreement providing a portion of the City's tax levy to CPS for debt service. The City has agreed to provide a portion of their annual levy in amounts ranging from \$91 million to \$142.3 million through the 2030 levy year.

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, 2012 are as follows (\$000's):

<u>Description</u>	<u>Amount Defeased</u>	<u>Amount Outstanding*</u>
Unlimited Tax General Obligation Bonds Series 1996	\$ 24,430	\$ 12,600
Unlimited Tax General Obligation Bonds Series 1997	27,010	13,960
Unlimited Tax General Obligation Bonds Series 2003A ...	35,250	29,055
Unlimited Tax General Obligation Refunding Bonds Series 2004A	2,990	2,965
Unlimited Tax General Obligation Bonds Series 2004F ...	25,000	24,110
Unlimited Tax General Obligation Bonds Series 2004H ...	18,500	17,835
Unlimited Tax General Obligation Bonds Series 2005C ...	53,750	43,150
Unlimited Tax General Obligation Refunding Bonds Series 2006B	13,770	7,020
Unlimited Tax General Obligation Bonds Series 2007D ...	15,175	7,735
Unlimited Tax General Obligation Refunding Bonds Series 2009D	8,170	5,095
Unlimited Tax General Obligation Refunding Bonds Series 2009F	5,375	5,375
Total	<u>\$229,420</u>	<u>\$168,900</u>

* 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 or the Series 2000E Bonds. These bond series were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal

NOTE 8. LONG-TERM DEBT (continued)

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 average monthly variable rate for June 2012 and remain the same for the life of the bonds. 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		Variable Rate Bonds			Total
	Principal	Interest	Principal	Interest*	Interest Rate Swaps, Net**	
2013	\$ 33,578	\$ 225,363	\$ 7,395	\$ 7,557	\$ 36,066	\$ 309,959
2014	128,272	229,152	19,360	7,510	35,808	420,102
2015	136,527	226,901	21,015	7,391	35,539	427,373
2016	138,586	224,054	22,605	7,260	35,261	427,766
2017	133,258	220,891	24,260	7,116	34,971	420,496
2018-2022	812,600	1,051,051	151,010	32,992	167,160	2,214,813
2023-2027	1,106,851	954,483	309,415	26,635	144,883	2,542,267
2028-2032	1,009,239	1,004,122	483,945	10,946	71,364	2,579,616
2033-2037	318,570	218,577	134,530	788	10,408	682,873
2038-2042	602,670	87,087	—	—	—	689,757
Total	\$4,420,151	\$4,441,681	\$1,173,535	\$108,195	\$571,460	\$10,715,022

* Interest on variable rate demand notes assume current interest rates remain the same as of June 30, 2012 and was calculated as follows:

Series 2000B — 0.1768%
 Series 2008A — 0.9900%
 Series 2008B — 0.9900%
 Series 2009A — 0.1838%
 Series 2009B — 0.2070%
 Series 2010A — 0.1710%
 Series 2010B — 0.1710%
 Series 2011C-1 — 1.3226%
 Series 2011C-2 — 1.2823%
 Series 2011D — 0.8170%

** Swap interest rate assumes current LIBOR rate remains the same as of June 30, 2012, and was calculated as follows:

Series 2008A computed: (5.2500% — 0.4520%) x outstanding principal
 Series 2008B computed: (3.7710% — 0.1720%) x outstanding principal
 Series 2009A computed: (3.6617% — 0.1720%) x outstanding principal
 Series 2009B computed: (3.8250% — 0.1720%) x outstanding principal
 Series 2010A computed: (3.8250% — 0.1720%) x outstanding principal
 Series 2010B computed: (3.6617% — 0.1720%) x outstanding principal
 Series 2011D computed: (3.8230% — 0.1720%) x outstanding principal

Liquidity Facilities

Variable rate bonds are demand obligations that allow bondholders to demand repayment on a daily or weekly basis. The \$95.1 million Series 2000B bonds are supported by a Letter of Credit Agreement

NOTE 8. LONG-TERM DEBT (continued)

with Wells Fargo Bank, NA which expires on December 29, 2014. Under the Letter of Credit Agreement, any liquidity advance would incur an interest rate equal to the greatest of the Prime Rate plus 1% the Federal Funds Rate plus 2%, and 7% per annum for the first 180 days. Thereafter the advance would incur an interest rate equal to the greater of 9% per annum or 125% of the rate for the most recent date shown in the 20 G.O. Bond Index as published in the most recent edition of the Bond Buyer. The commitment fee is 0.75% per annum for the Series 2000B bonds and at June 30, 2012, there were no bonds drawn under the Letter of Credit Agreement. The scheduled maturity of the bonds will not change in any event.

The \$65 million Series 2009A-1 is supported by a Letter of Credit Facility with BMO Harris Bank, NA and the \$65 million Series 2009A-2 is supported by The Northern Trust Company. Both agreements were extended in 2012 and expire on March 17, 2015. Under the Letter of Credit Agreements, any liquidity advances would incur an interest rate equal to the greatest of the Prime Rate, Federal Funds Rate plus 1.5%, the LIBOR Quoted Rate plus 1.5%, and 7% (the Base Rate) for the first 7 days. For the 8th through 90th day interest would incur at the Base Rate plus 1%, for the 91st through 180th day interest would incur at the Base Rate plus 2% and thereafter, at the maximum rate allowed under Illinois law not to exceed 15% per annum. In the event of default, the interest rate is the greatest of the Prime Rate, Federal Funds Rate plus ½ of 1%, and LIBOR Quoted Rate plus 1%, plus 3% for the first 180 days, thereafter at the maximum rate allowed under Illinois law not to exceed 15% per annum. The commitment fee is 0.75% per annum for the Series 2009A bonds and at June 30, 2012 there were no bonds drawn under either Letter of Credit Agreement. The scheduled maturity of the bonds will not change in any event.

The \$75.4 million Series 2009B is supported by a Letter of Credit Agreement with JP Morgan Chase Bank, NA which expires on December 29, 2016 and replaced an earlier agreement with US Bank. Under the Letter of Credit Agreement, any liquidity advances would incur an interest rate equal to the greatest of the Prime Rate plus 1.5%, the Federal Funds Rate plus 2%, or 5% per annum for the first 90 days. For the 91st day and thereafter, advances would incur a rate equal to the greatest of the Prime Rate plus 2.5%, the Federal Funds Rate plus 3%, or 7.5% per annum. The commitment fee is 1.2% per annum for the Series 2009B bonds, and at June 30, 2012 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change in any event.

The \$48.9 million Series 2010A and \$157.1 million Series 2010B are supported by a Letter of Credit Agreement with JP Morgan Chase Bank, NA, which expires on February 17, 2013. Under the Letter of Credit Agreement, any liquidity advances would incur an interest rate equal to the greatest of the Prime Rate plus 1.5%, the Federal Funds Rate plus 2%, or 5% 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%, or 7.5%. In the event of default, the interest rate would be the greater of the Prime Rate, plus 2.5%, Federal Funds rate plus 3% or 7.5% and in each case plus 3%, 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, 2012 there were no bonds drawn under the Letter of Credit Agreements. The scheduled maturity of the bonds will not change in any event.

Floating Rate Note Securities

In December 2011, CPS issued \$51 million (Series 2011C-1) and \$44.1 million (Series 2011C-2) variable rate bonds with JP Morgan Chase Bank, NA acting as placement agent. The bonds refunded the former Series 2000D. The interest rate for each series is reset monthly. For Series 2011C-1, the rate is equal to the SIFMA Index plus 95 basis points. For Series 2011C-2, the rate is equal to the SIFMA Index plus 110 basis points.

NOTE 8. LONG-TERM DEBT (continued)

Direct Placements

In May 2008, CPS issued \$262.8 million (Series 2008A) and \$241 million (Series 2008B) variable rate bonds in direct placements with Dexia Credit Local. The interest rate for each series is reset monthly, and is equal to the one month LIBOR rate plus 75 basis points. The bonds are subject to optional redemption prior to their maturity date at the option of CPS, in whole or in part (and, if in part, in an Authorized Denomination (\$100,000 and any integral multiple of \$5,000 in excess thereof)) on any LIBOR Interest Payment Date (monthly), at a redemption price equal to 100% of the principal amount thereof and accrued interest, if any, to the redemption date.

In December 2011, CPS issued \$95 million variable rate bonds (Series 2011D) in a direct placement with PNC Bank. The bonds refunded the former Series 2000C. The interest rate for each series is reset monthly and is equal to 70% of the one month LIBOR rate plus 75 basis points for the first Index Rate Period, which terminates on December 1, 2014. Each bond is subject to mandatory purchase on the Index Rate Purchase Date for the current Index Rate Period at a purchase price equal to 100% of the principal amount thereof plus accrued interest thereon to the Purchase Date. Unremarketed bonds shall bear interest at the Base Rate equal to the greater of the Prime Rate plus 1.5%, the Federal Funds Rate plus 2%, the daily LIBOR rate plus 1%, and 7.5% for the first 30 days. For the 31st through 180th days, the interest rate is equal to the Base Rate plus 2%, thereafter at the maximum rate allowed under Illinois law not to exceed 15% per annum. 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):

<u>Series</u>	<u>Accreted Interest June 30, 2011</u>	<u>Increase</u>	<u>Payment</u>	<u>Accreted Interest June 30, 2012</u>
1997A	\$ 40,500	\$ 3,836	\$ (7,913)	\$ 36,423
1998B-1	267,035	28,953	(6,495)	289,493
1999A	217,600	23,661	(11,321)	229,940
	<u>\$525,135</u>	<u>\$56,450</u>	<u>\$(25,729)</u>	<u>\$555,856</u>

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 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 accumulated amortization as of June 30, 2012 amounted to \$0.4 million. The term of the lease commenced October 1, 2005 and shall end February 1, 2021. This

NOTE 9. LEASE OBLIGATIONS (continued)

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, 2012, are as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>PBC Lease Rentals</u>	<u>Other</u>	<u>Total</u>
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	52,019	424	52,443
2018-2021	134,804	1,917	136,721
Total rentals	\$394,793	\$ 4,037	\$398,830
Less — Interest and other costs	(95,013)	(2,112)	(97,125)
Principal amount of rental due	<u>\$299,780</u>	<u>\$ 1,925</u>	<u>\$301,705</u>

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

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>
PBC leases	\$330,375	\$—	\$(30,595)	\$299,780
Other capitalized leases	2,100	—	(175)	1,925
	<u>\$332,475</u>	<u>\$—</u>	<u>\$(30,770)</u>	<u>\$301,705</u>
Less: Current portion PBC leases				(32,450)
Current portion other capitalized leases				(175)
Total long-term leases outstanding				<u>\$269,080</u>

Operating Leases

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

NOTE 9. LEASE OBLIGATIONS (continued)

Total expenditures for operating leases for the fiscal year ending June 30, 2012 were \$15.7 million. Following is a summary of operating lease commitments as of June 30, 2012 (\$000's):

<u>Fiscal Year(s)</u>	<u>Non-real property leases</u>	<u>Real property leases</u>	<u>Total</u>
2013	\$ 5,668	\$10,908	\$16,576
2014	3,641	10,542	14,183
2015	1,777	9,347	11,124
2016	739	3,974	4,713
2017	9	2,828	2,837
2018-2022	—	12,881	12,881
2023-2027	—	2,747	2,747
2028	—	90	90
Total operating lease commitments ...	<u>\$11,834</u>	<u>\$53,317</u>	<u>\$65,151</u>

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, 2012. 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):

<u>Type</u>	<u>Potential Hedging Derivative Notional Amount</u>	<u>Trade Date</u>	<u>Effective Date</u>	<u>Termination Date</u>	<u>Counterparty</u>
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.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Evaluation of Hedge Effectiveness

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

Hedging Derivative Instruments	Results
Consistent Critical Terms 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, 2012, 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 mark to market at each report date with change in fair value reported as part of investment revenue or expense.

In August 2005, CPS sold an option to Bank of America N.A. under which CPS would enter into an interest rate swap associated with \$100 million of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). CPS received an upfront payment of \$18.3 million during fiscal year 2006. Per GASB Statement 53, the swaption is classified as a hybrid instrument and is reported as a swaption liability in CPS’ Statement of Net Assets. The liability is amortized over the life of the 2008A bonds. As of June 30, 2012, the swaption liability balance is \$14.7 million.

In November 2006, CPS also sold an option to Royal Bank of Canada under which CPS would have to enter into an interest rate swap associated with \$162.8 million of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). CPS received an upfront payment of \$24.9 million during fiscal year 2007. Per GASB Statement 53, the swaption is classified as a hybrid instrument and is reported as a swaption liability in CPS’ Statement of Net Assets. The liability is amortized over the life of the 2008A bonds. As of June 30, 2012, the swaption liability balance is \$19.5 million.

On December 16, 2011, CPS refunded its Series 2000C bonds with Series 2011D bonds. Up to the refunding date, the hedging derivative, \$61.1 million pay-fixed swap, was effective with the cumulative change in its fair value in deferred outflows. The market value of the swap as of December 16, 2011 was \$18.9 million. Subsequent to the refunding the derivative will be accounted for as a hybrid instrument with the at-market portion of the swap designated as a hedging derivative. The off-market amount is considered a borrowing and is amortized over the life of the 2011D bonds, the amount of \$18.5 million is reported in CPS’ Statement of Net Assets. The refunding is a termination event as described by paragraph 22e of GASB Statement 53. The balance of the deferral account attributable to the original hedging relationship of \$18.9 million was included in the net carrying amount of the old debt for purposes of calculating the difference between that amount and the reacquisition price of the old debt in accordance with GASB Statement 23, and will be amortized over the life of the refunding or refunded bonds, whichever is shorter.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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, 2012	
	Notional	Classification	Amount	Classification	Amount
Governmental activities					
Cash flow hedges:					
Pay-fixed swap	\$ 61,100	Deferred outflow	\$ (10,196)	Derivative liability	\$ (19,250)
Pay-fixed swap	100,000	Deferred outflow	(19,642)	Derivative liability	(51,237)
Pay-fixed swap	162,785	Deferred outflow	(26,758)	Derivative liability	(74,349)
Pay-fixed swap	90,000	Deferred outflow	(13,428)	Derivative liability	(26,013)
Pay-fixed swap	95,350	Deferred outflow	(14,227)	Derivative liability	(27,559)
Pay-fixed swap	130,000	Deferred outflow	(8,940)	Derivative liability	(23,590)
Pay-fixed swap	124,320	Deferred outflow	(22,523)	Derivative liability	(41,440)
Pay-fixed swap	157,055	Deferred outflow	(30,270)	Derivative liability	(51,011)
Total:	\$920,610		\$(145,984)		\$(314,449)
Hybrid instruments:					
Swap implicit borrowing	\$ 61,100	Deferred amount on refunding	\$ 18,982	Implicit borrowing liability	18,471
		Interest expense	(511)		
Swaption	100,000	Interest expense	(798)	Swaption liability	14,689
Swaption	162,785	Interest expense	(1,187)	Swaption liability	19,485
Total:			16,486		\$ 52,645
				Total deferred outflows	\$(261,804)
Investment derivatives:					
Basis swap	\$116,151	Investment earnings	\$ 780	Asset	\$ 1,278
Basis swap	77,434	Investment earnings	(857)	Derivative liability	(1,734)
Total:	\$193,585		\$ (77)		\$ (456)

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, \$263.5 million are recorded as derivative instrument liability, \$1.3 million as derivative instrument and \$261.8 million as deferred outflow.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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

Type	Objective	Notional Amount (000's)	Trade Date	Termination Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge interest rate risk on a portion of 2011D bonds	\$ 61,100	02/13/2007	03/01/2032	Pay 3.823% Receive 1ML* x 70%	Aa3/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%	A3/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%	Aa3/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%	A2/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%	A2/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%	Aa2/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%	Aa3/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%	Aa2/A+

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

Credit Risk

As of June 30, 2012, 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 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.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Basis Risk

With the exception of Series 2008A, Series 2008B, and Series 2011D 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 2008A, Series 2008B and 2011D 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 2008A, 2008B and 2011D 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 0.13%, Securities Industry and Financial Markets Association (SIFMA) is 0.15%, and the average LIBOR-based variable-rate of the hedging derivatives was 0.17%.

Termination Risk

CPS or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, CPS' swap counterparties have the right to terminate a derivative if the credit rating of CPS' 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 A by Fitch, A+ by S&P, and A2 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, 2012, rollover risk is not considered material.

Foreign Currency Risk

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

Other Investment Derivatives

As of June 30, 2012, CPS had investments with the following maturities (\$000's):

Investment Type	Fair Value	Maturities Less than 1 Year	Maturities 1-5 Years	Maturities 6-10 Years	Maturities More than 10 Years
Investment derivative instrument	\$ 1,278	—	\$15,783	\$24,966	\$75,402
Investment derivative instrument	\$(1,734)	—	\$10,522	\$16,644	\$50,268

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%	A2/A+
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%	Baa2/A-

NOTE 11. OTHER BENEFITS AND CLAIMS

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. 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 million and Boiler and Machinery Insurance with limits of \$100 million with the following deductibles:

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

During fiscal years 2012, 2011 and 2010 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 million in excess of a \$5 million self-insured retention per loss for claims arising from: General Liability, Automotive Liability, Employer's Liability and Wrongful Acts.

As discussed in Note 14, there are pending workers' compensation and tort claims involving 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 are actuarially determined based on reserves established by the respective claims administrators. Tort liabilities are based on reserves established by the respective trial attorneys. 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. Total expenditures reported in the fund financial statements amounted to \$35.7 million.

NOTE 11. OTHER BENEFITS AND CLAIMS (continued)

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

	<u>Balance June 30, 2011</u>	<u>Increase/ (decrease)</u>	<u>Payments</u>	<u>Balance June 30, 2012</u>
Accrued sick pay benefits	\$459,823	\$ (5,432)	\$ (99,699)	\$354,692
Accrued vacation pay benefits	66,389	10,060	(10,931)	65,518
Accrued workers' compensation claims	109,735	29,373	(23,812)	115,296
Accrued general and automobile claims	5,343	4,136	(4,081)	5,398
Tort liabilities and other claims	2,000	—	—	2,000
Total	<u>\$643,290</u>	<u>\$38,137</u>	<u>\$(138,523)</u>	<u>\$542,904</u>
Less: Current portion of accrued sick pay benefits				(60,177)
Less: Current portion of accrued vacation pay benefits				(10,594)
Less: Current portion of accrued workers' compensation claims				(26,715)
Less: Current portion of accrued general and automobile claims				(1,318)
Total long-term other benefits and claims				<u>\$444,100</u>

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

<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2012</u>
<u>\$109,207</u>	<u>\$33,127</u>	<u>\$(27,256)</u>	<u>\$115,078</u>	<u>\$33,509</u>	<u>\$(27,893)</u>	<u>\$120,694</u>

CPS is self-insured for 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 \$33 million for estimated medical claims incurred but not reported as of June 30, 2012. Following is the activity related to medical claims for which CPS is self-insured (\$000's):

<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2012</u>
<u>\$54,917</u>	<u>\$359,527</u>	<u>\$(358,902)</u>	<u>\$55,542</u>	<u>\$366,753</u>	<u>\$(366,450)</u>	<u>\$55,845</u>

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS**Pension — Certified Teachers and Administrators**

Pension benefits for certified teachers and administrators are provided under a defined benefit cost-sharing multiple employer plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund") in which the CPS is the sole contributor. 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, 2011, the most recent report, there were 30,133 active participants in the Pension Fund, substantially all of who were employees of 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.

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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 for 2010 and shall be increased by the lesser of 3% or ½ 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% for survivor's pension. In fiscal year 2012, as in previous fiscal years, CPS paid a portion (7% — \$130.4 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. A portion of grant funds from the Federal government and General Operating Fund revenues provides the funding of the 7% portion. The remaining portion (2%) is withheld from teachers' salaries.

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

Retirement benefit contribution:

A contribution to increase funded ratio to 90%	\$173,050
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	20,230
Subtotal	\$193,280
A contribution from the State of Illinois	10,449
A contribution to Early Retirement Option Plan	973
A 20% deficiency payment	1,502
Total contributions	<u>\$206,204</u>

For the fiscal year ended June 30, 2012, employee contributions are \$167.7 million which is 9% of pensionable salary. Employer contributions for the year are \$206.2 million which is approximately 10% 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 \$205.3 million and amounts incurred by CPS for a portion of the required employees' pension contribution of \$130.4 million, which total \$335.7 million. For functional reporting purposes, all teachers' pension expenditures, except the portion funded by the Federal grants, are reflected in the same functional classifications as the teachers' salaries.

The government-wide financial statements also reflect pension expense as a representation of the change in net pension obligation.

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

CPS' annual pension costs for fiscal year 2012 is as follows (\$000's):

Annual required contribution (ARC)	\$ 510,101
Interest on net pension obligation (NPO)	180,961
Adjustment to annual required contribution	(128,032)
Annual pension cost (APC)	\$ 563,030
Less: Contributions made	(206,204)
Increase in NPO	\$ 356,826
Add NPO, beginning of year	2,262,010
NPO, end of year	<u>\$2,618,836</u>

The three-year trend information for the fund is as follows (amounts are in \$000's):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual pension cost	\$ 563,030	\$ 471,712	\$ 401,003
Percentage of annual pension cost contributed	36.6%	37.8%	90.3%
Net pension obligation	\$2,618,836	\$2,262,010	\$1,968,685

Actuarial Methods and Assumptions

Actuarial valuation date	June 30, 2011
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%

As of June 30, 2011, the most recent actuarial valuation date, actuarial accrued liability (AAL) for benefits was \$16.940 billion, and the actuarial value of assets was \$10.109 billion, resulting in an unfunded actuarial accrued liability (UAAL) of \$6.831 billion, and a funded ratio of 59.7%. The covered payroll (annual payroll of active employees covered by the plan) was \$2.090 billion, and the ratio of the UAAL to the covered payroll was 326.8%.

In the opinion of CPS' legal counsel, the unfunded actuarial liability of the Pension Fund is not a liability to be funded by 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 2012 was \$193.3 million. However, beginning in fiscal year 2014, CPS will be required to make pension contributions to increase the funded ratio to 90% by FY 2059. During fiscal year 2012, 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.

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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. The highest salary for annuity purposes may not exceed the base of \$106,800, and shall be adjusted annually by a) 3% of that amount, including all prior adjustments, or b) ½ of the annual unadjusted percentage increase in the consumer price index-u for the 12 months ending with the September preceding each November 1, including all prior adjustments. The annual salary rate limitation for FY11 and FY12 was \$106,800 and \$108,883, respectively.

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 may not exceed the base of \$106,800 adjusted by inflation. In fiscal year 2012, as in previous fiscal years, CPS agreed to pay a portion (7% — \$38.4 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 \$100.0 million, \$38.4 million of this amount represents the required employees' contribution paid by CPS on behalf of its employees; \$54.6 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining \$7.0 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 2012 is \$100.0 million. For fiscal years 2011 and 2010, the career service pension expense was \$102.2 million and \$96.9 million, respectively.

As of December 31, 2011, CPS employed approximately 17,042 of the 31,976 active participants in the Annuity Fund. The annual report can be found at www.meabf.org. CPS, in the opinion of its legal counsel, has no duty to contribute any sum to the Annuity Fund. The Annuity Fund is funded by member and employer contribution rates that are established by state law and may be amended only by the Illinois General Assembly. Active members are required to contribute to the Annuity Fund 8.5% of

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

their salary. The City of Chicago is required by state statutes to contribute the remaining amounts necessary to finance the requirements of the Annuity Fund. It is required to levy a tax at a rate not more than an amount equal to 1.25 times (current multiple) 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.

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"). The actuarial analysis is contained in the Pension Fund Annual Report and is 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 60% and 70% of the individual member's cost for fiscal years 2011 and 2010, respectively. 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 GASB 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, 2011, the most recent available data, there were 30,133 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.

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

CPS' annual OPEB costs for fiscal year 2012 is as follows (\$000's):

Annual required contribution	\$ 218,842
Interest on net OPEB obligation	50,859
Adjustment to annual required contribution	(63,970)
Annual OPEB cost	\$ 205,731
Less: Contributions made by the State of Illinois	0
Increase in OPEB	\$ 205,731
Add OPEB, beginning of year	1,130,197
OPEB, end of year	<u>\$1,335,928</u>

The three-year trend information for the fund is as follows (amounts are in \$000's):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual OPEB cost	\$ 205,731	\$ 213,348	\$192,718
Percentage of annual pension cost contributed	0%	15.2%	0%
Net OPEB obligation	\$1,335,928	\$1,130,197	\$949,371

Actuarial Methods and Assumptions

Actuarial valuation date	June 30, 2011
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	9%
Inflation	3%

As of June 30, 2011, the most recent actuarial valuation date, actuarial accrued liability (AAL) for benefits was \$3.071 billion, and the actuarial value of assets was \$31 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.040 billion, and a funded ratio of 1%. The covered payroll (annual payroll of active employees covered by the plan) was \$2.090 billion, and the ratio of the UAAL to the covered payroll was 145.4%.

Other Personnel

Actuarial studies on other personnel determined that no OPEB liability exists for those employees as of June 30, 2012.

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):

Prepays	\$5,674
Inventory	2,901
Donation (principal required to be maintained intact)	428
Total	<u>\$9,003</u>

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

At the end of the fiscal year the total encumbrances for the general operating fund amounted to \$129.5 million and \$88.8 million for the capital projects fund.

b. Net Assets Restrictions

The government-wide statement of net assets reports \$445.2 million of restricted net assets, of which \$282.3 million is restricted for Debt service, \$70.3 million is restricted for Grants and donations, and \$92.6 million is restricted for Workers' comp/tort immunity.

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, 2012, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2012.

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 2012, CPS recorded a pollution remediation obligation of \$9.0 million as current year expense in the Statement of Activities.

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

c. Other Litigation and Claims

There are numerous other claims and pending legal actions involving CPS, including actions concerned with civil rights of employees, workers' compensation, torts, property tax objections, and other matters, arising out of CPS' ordinary conduct of its business. Certain actions involve alleged damages in substantial amounts. The amounts of liability, if any, on these claims as of June 30, 2012, 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 would not have a material adverse impact on the financial position of CPS' financial statements as of June 30, 2012.

NOTE 15. SUBSEQUENT EVENTS

Unlimited Tax General Obligation Bonds (Series 2012A)

In August 2012, CPS issued \$468.9 million in Unlimited Tax General Obligation Bonds (Series 2012A) at a net premium of \$40 million. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, to capitalize interest, and to pay costs of issuance of the bonds. The debt service will be paid from General State Aid Revenues.

NOTE 15. SUBSEQUENT EVENTS (continued)

Unlimited Tax General Obligation Bonds (Series 2012B)

In December 2012, CPS issued \$109.8 million in Unlimited Tax General Obligation Bonds (Series 2012A) at a net premium of \$7.3 million. The proceeds from these bonds are being used to refund outstanding Series 2003A; a portion of Series 2000B, 2006B, 2007D, 2008B, 2009D, and 2009F; interest on Series 2011A; and the costs of issuance of the bonds. As a result of issuance, net proceeds of \$113.8 were deposited with the trustees of the various refunded series to provide for future debt service payments of the refunded bonds. As a result, Series 2003A is considered to be fully refunded. The debt service on the Series 2012B bonds will be paid from General State Aid Revenues.

Ratings Agency Downgrades

In fiscal year 2013, Moody's downgraded CPS to A1 from Aa3 in July, 2012, and Standard & Poor's downgraded CPS to A+ from AA- when CPS sold bonds in August 2012. Both Moody's and Fitch downgraded CPS to A2 and A in September and October of 2012 respectively. All three agencies cited the teachers' strike, budget, and pension concerns as rationales for their rating actions. CPS is currently rated A+ by S&P, A2 by Moody's and A by Fitch.

Liquidity Facility Fee Increases

On September 28, 2012, the ratings downgrades triggered contractual provisions in several liquidity facility agreements and private placement debt for automatic fee increases. The changes are as follows:

<u>Series</u>	<u>Liquidity Provider</u>	<u>Agreement Type</u>	<u>Prior Fee</u>	<u>New Fee</u>
2000B	Wells Fargo, NA	Direct Pay Letter of Credit	0.75%	0.85%
2009B	JP Morgan Chase Bank, NA	Direct Pay Letter of Credit	1.20%	1.35%
2010A	JP Morgan Chase Bank, NA	Direct Pay Letter of Credit	1.25%	1.40%
2010B	JP Morgan Chase Bank, NA	Direct Pay Letter of Credit	1.25%	1.40%
2011D	PNC Bank	Private Loan	70% of 1-month LIBOR + 0.65%	70% of 1-month LIBOR + 0.75%

APPENDIX B

Pension Fund Actuarial Valuation for Fiscal Year 2012

[THIS PAGE INTENTIONALLY LEFT BLANK]

Public School Teachers' Pension and Retirement Fund of Chicago

Statutorily Required Funding
Valuation as of June 30, 2012

Copyright © 2013 by The Segal Group, Inc., parent of The Segal Company. All rights reserved.

B-1





The Segal Company
101 North Wacker Drive, Suite 500 Chicago, IL 60606
T 312.984.8500 F 312.984.8590 www.segalco.com

February 5, 2013

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

Dear Board Members:

We are pleased to submit this combined actuarial valuation as of June 30, 2012 of the pension and retiree health insurance benefits provided under the Fund. It summarizes the actuarial data used in the valuation, measures the overall funded status of the plan, and establishes the statutorily required contributions for the fiscal year ending June 30, 2014.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Public School Teachers' Pension and Retirement Fund of Chicago. The census and financial information on which our calculations were based was prepared by the Fund staff. That assistance is gratefully acknowledged. We have not subjected the census data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data.

Since the effective date of the last actuarial valuation, the only modification to benefit provisions that impacted the actuarial liabilities of the Fund was the implementation of the pension overpayment settlement. The impact of the settlement is described on page i.

The actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the Fund's actuary. The assumptions and methods used for the June 30, 2012 actuarial valuation were based on an experience analysis covering the four-year period ending June 30, 2006 and were adopted by the Board, effective for the June 30, 2008 valuation. In our opinion, the assumptions as approved by the Board are reasonably related to the experience of the Fund.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan

experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

The actuarial calculations were directed under our supervision. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and the expectations for the Fund.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,

THE SEGAL COMPANY

By:



Kim Nicholl, FSA, MAAA, EA, FCA
Senior Vice President and Actuary



Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

SECTION 1**VALUATION SUMMARY**

Purpose	i
Significant Issues in Valuation Year.....	i
Summary of Key Valuation Results.....	iii

SECTION 2**VALUATION RESULTS**

A. Member Data	1
B. Financial Information.....	2
C. Actuarial Experience.....	4
D. Development of Employer Costs.....	9

SECTION 3**SUPPLEMENTAL
INFORMATION**

EXHIBIT A Table of Plan Coverage.....	10
EXHIBIT B Participants in Active Service as of June 30, 2012.....	11
EXHIBIT C Reconciliation of Participant Data	12
EXHIBIT D Summary Statement of Income and Expenses on a Market Value Basis	13
EXHIBIT E Summary Statement of Plan Assets	14
EXHIBIT F Development of Unfunded Actuarial Accrued Liability.....	15
EXHIBIT G Definitions of Pension Terms..	16

SECTION 4**REPORTING INFORMATION**

EXHIBIT I Summary of Actuarial Valuation Results.....	22
EXHIBIT II Projection of Contributions, Liabilities, and Assets	24
EXHIBIT III Actuarial Assumptions and Actuarial Cost Method.....	27
EXHIBIT IV Summary of Plan Provisions ..	31

SECTION 1: Valuation Summary for the Public School Teachers' Pension and Retirement Fund of Chicago

Purpose

This report has been prepared by The Segal Company to present a combined valuation of the pension and retiree health insurance benefits of the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF) as of June 30, 2012. The valuation was performed to determine the overall funded status and contribution requirements of the Fund. The required contributions presented in this report are based on:

- The benefit provisions of the Fund, as administered by the Board;
- The characteristics of covered active participants, inactive vested participants, and retired participants and beneficiaries as of June 30, 2012, provided by CTPF staff;
- The assets of the Plan as of June 30, 2012, provided by CTPF staff;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

The following key findings were the result of this actuarial valuation:

1. 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 that, 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. Based on our projection, we have determined that the Board of Education's required contribution for Fiscal Year 2014 is \$600,009,000. In conjunction with the additional State contributions and additional Board of Education contributions of \$11,903,000 and \$12,691,000, respectively, Fiscal Year 2014 contributions will total \$624,603,000.
2. The pension overpayment settlement resolved an issue that some pensioners' original benefits were miscalculated and the pensioners were being overpaid. The resolution reduces or eliminates the automatic annual increase for the effected pensioners for the next few years until their benefits are corrected. This lower annual increase for some pensioners lowered the actuarially accrued liability by about \$69.3 million.

SECTION 1: Valuation Summary for the Public School Teachers' Pension and Retirement Fund of Chicago

3. The funded ratio based on the actuarial value of assets over the actuarial accrued liability as of June 30, 2012 is 54.1%, compared to 59.9% as of June 30, 2011. This ratio is a measure of funding status; its history is a measure of funding progress.
4. For the year ended June 30, 2012, Segal has determined that the asset return on a market value basis was -0.4%. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 1.0%. This represents an experience loss when compared to the assumed rate of 8%. As of June 30, 2012, the actuarial value of assets (\$9.398 billion) represented 99.2% of the market value (\$9.471 billion).
5. The portion of deferred investment gains and losses recognized in the calculation of the June 30, 2012 actuarial value of assets resulted in a loss of \$685,743,831. Additionally, the demographic and liability experience resulted in a \$34,067,791 loss.
6. As mentioned above, the current method used to determine the actuarial value of assets yields an amount that is 99.2% of the market value of assets as of June 30, 2012. Guidelines in Actuarial Standard of Practice No. 44 (Selection and Use of Asset Valuation Methods for Pension Valuations) recommend that asset values fall within a reasonable range around the corresponding market value. We believe the actuarial asset method currently complies with these guidelines.
7. Given the Fund's current (and projected) financial situation, the current 8% investment return assumption appears to be at the high end of the reasonable range. We were unable to definitively judge the reasonableness of this assumption without performing a substantial amount of additional work that is beyond the scope of this report. Therefore, for purposes of this actuarial valuation, the 8% assumed rate was used to discount actuarial liabilities. We plan to work with the Board to study the investment return assumption further at a later date and modify the assumption, if necessary.
8. This actuarial valuation report as of June 30, 2012 is based on financial data as of that date. Changes in the value of assets subsequent to that date are not reflected. Declines in asset values will increase the cost of the plan, while increases in asset values (in excess of expected) will decrease the cost of the plan.

SECTION 1: Valuation Summary for the Public School Teachers' Pension and Retirement Fund of Chicago

Summary of Key Valuation Results

	2013	2012	2011*
Contributions for fiscal year beginning July 1:			
Required Board of Education contributions	\$600,009,000	\$196,000,000	\$192,000,000
Additional Board of Education contributions	\$12,691,000	11,654,000	11,729,000
Additional State contributions	<u>\$11,903,000</u>	<u>10,931,000</u>	<u>11,001,000</u>
Total employer contributions	\$624,603,000	218,585,000	214,730,000
Actual employer contributions	--	--	203,729,011
Funding elements for fiscal year beginning July 1:			
Normal cost, including administrative expenses		\$173,787,026	\$188,442,067
Market value of assets		9,471,440,984	10,344,086,736
Actuarial value of assets		9,398,201,630	10,140,639,494
Actuarial accrued liability		17,375,660,369	16,940,626,445
Unfunded/(overfunded) actuarial accrued liability		7,977,458,739	6,799,986,951
Funded ratio		54.09%	59.86%
Demographic data for plan year beginning July 1:			
Number of retirees and beneficiaries		25,926	25,199
Number of vested former participants		4,245	4,253
Number of active members		30,366	30,133
Total salary supplied by the Fund		\$2,118,235,482	\$2,090,131,858
Average salary		69,757	69,364

* 2011 results shown here and throughout this report are based on the valuation performed by Goldstein & Associates.

SECTION 2: Valuation Results for the Public School Teachers’ Pension and Retirement Fund of Chicago

A. MEMBER DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered members, including active members, inactive members, retirees, and beneficiaries.

This section presents a summary of significant statistical data on these participant groups.

More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A, B, and C.

B-8

A historical perspective of how the participant population has changed over the past ten valuations can be seen in this chart.

CHART 1
Member Population: 2003 – 2012

Year Ended June 30	Active Members	Vested Terminated Members	Retirees and Beneficiaries	Ratio Actives to Retirees and Beneficiaries
2003	36,548	1,444	18,565	1.97
2004	37,362	1,930	19,266	1.94
2005	37,521	2,059	20,954	1.79
2006	34,682	2,408	22,105	1.57
2007	32,968	2,752	23,623	1.40
2008	32,086	3,479	23,920	1.34
2009	31,905	3,056	24,218	1.32
2010	33,983	2,752	24,600	1.38
2011	30,133	4,253	25,199	1.20
2012	30,366	4,245	25,926	1.17

SECTION 2: Valuation Results for the Public School Teachers' Pension and Retirement Fund of Chicago

B. FINANCIAL INFORMATION

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board has approved an asset valuation method that gradually adjusts to market value. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

The chart shows the determination of the actuarial value of assets as of the valuation date.

CHART 2

Determination of Actuarial Value of Assets for Years Ended June 30, 2012 and June 30, 2011

		2012		2011	
1.	Actuarial value of assets as of prior June 30		\$10,140,639,494		\$10,952,274,725
2.	Employer and employee contributions and miscellaneous income		398,072,836		404,866,598
3.	Benefits and expenses		1,232,635,521		1,166,400,567
4.	Expected investment income		777,868,652		846,306,631
5.	Total investment income, including income for securities lending		-38,083,067		2,123,292,641
6.	Investment gain/(loss) for the year ended June 30: (5) – (4)		-815,951,719		1,276,986,010
7.	Expected actuarial value of assets: (1) + (2) - (3) + (4)		10,083,945,461		11,037,047,387
8.	Calculation of unrecognized return				
		<u>Original Amount*</u>	<u>% Recognized</u>	<u>% Recognized</u>	
(a)	Year ended June 30, 2012	-\$815,951,719	25%		--
(b)	Year ended June 30, 2011	1,276,986,010	25%	25%	\$319,246,503
(c)	Year ended June 30, 2010	205,750,306	25%	25%	51,437,577
(d)	Year ended June 30, 2009	-3,409,759,924	25%	25%	-852,439,981
(e)	Year ended June 30, 2008	-1,658,607,968		25%	-414,651,992
(f)	Total recognized return		<u>-685,743,831</u>		<u>-896,407,893</u>
9.	Total actuarial value of assets as of June 30: (7) + (8f)		\$9,398,201,630		\$10,140,639,494

* Total return minus expected return on actuarial value

SECTION 2: Valuation Results for the Public School Teachers' Pension and Retirement Fund of Chicago

Both the actuarial value and market value of assets are representations of the Fund's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the Fund's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

B-10

This chart shows the change in the actuarial value of assets versus the market value over the past ten years.

CHART 3

Actuarial Value of Assets vs. Market Value of Assets as of June 30, 2003 – 2012



SECTION 2: Valuation Results for the Public School Teachers’ Pension and Retirement Fund of Chicago

C. ACTUARIAL EXPERIENCE

To calculate the actuarially required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year’s experience was a short-term

development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total loss is \$714,424,102, \$685,743,831 from investment losses and \$28,680,271 in losses from all other sources. The net experience variation from individual sources other than investments was less than 0.2% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

B-11

This chart provides a summary of the actuarial experience during the past year.

CHART 4
Actuarial Experience for Year Ended June 30, 2012

1. Net gain/(loss) from investments*	-\$685,743,831
2. Net gain/(loss) from administrative expenses	-331,963
3. Net gain/(loss) from retiree health insurance cash flows	5,719,483
4. Net gain/(loss) from other experience**	<u>-34,067,791</u>
5. Net experience gain/(loss): (1) + (2) + (3)	-\$714,424,102

* Details in Chart 5

** Details in Chart 8

SECTION 2: Valuation Results for the Public School Teachers' Pension and Retirement Fund of Chicago

Investment Rate of Return

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the CTPF's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets is 8.00%. The actual rate of return on an actuarial basis for the 2012 plan year was 0.95%.

Since the actual return for the year was less than the assumed return, the CTPF experienced an actuarial loss during the year ended June 30, 2012 with regard to its investments.

CHART 5

Actuarial Value Investment Experience for Year Ended June 30, 2012

1. Actual return	\$92,124,821
2. Average value of actuarial assets	9,723,358,152
3. Actual rate of return: (1) ÷ (2)	0.95%
4. Assumed rate of return	8.00%
5. Expected return: (2) x (4)	\$777,868,652
6. Actuarial gain/(loss): (1) – (5)	<u>-\$685,743,831</u>

This chart shows the gain/(loss) due to investment experience.

SECTION 2: Valuation Results for the Public School Teachers' Pension and Retirement Fund of Chicago

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the market value investment return for the last ten years, including five-year and ten-year averages.

Chart 6
Investment Return

Year Ended June 30	Market Value	Actuarial Value*
2003	4.0%	2.3%
2004	15.0%	3.2%
2005	10.8%	6.0%
2006	10.7%	9.6%
2007	17.7%	13.3%
2008	-5.3%	7.9%
2009	-22.4%	0.2%
2010	13.6%	-0.4%
2011	24.8%	-0.5%
2012	-0.4%*	1.0%
Average Returns		
Last 5 years:	0.0%	1.7%
Last 10 years:	5.9%	4.3%

* As determined by Segal

SECTION 2: Valuation Results for the Public School Teachers' Pension and Retirement Fund of Chicago

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling the actuarially required contribution.

Administrative Expenses

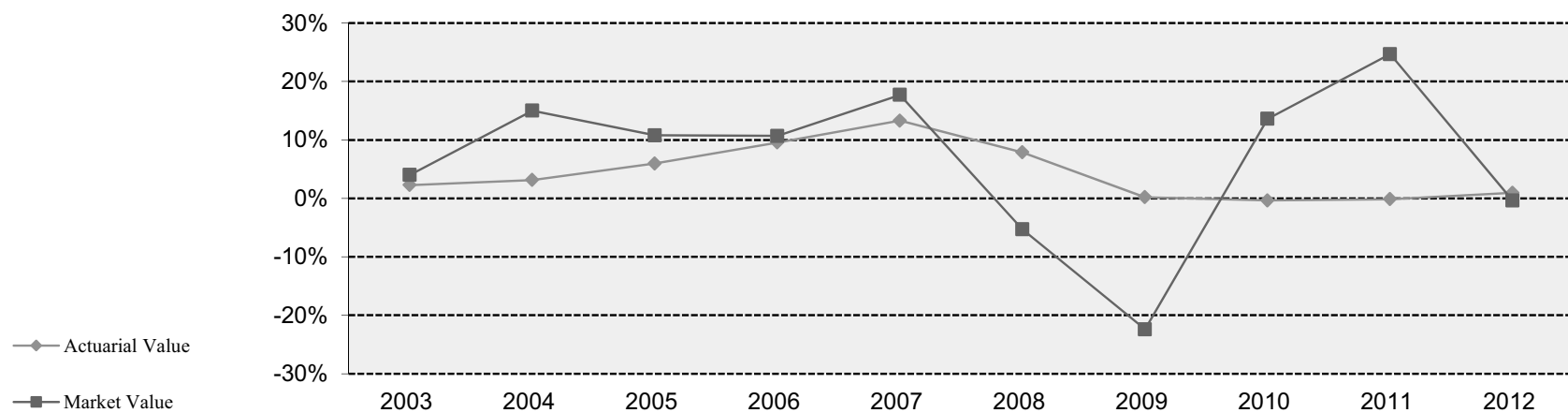
Administrative expenses for the year ended June 30, 2012 totaled \$10,120,434 compared to the assumption of \$9,433,406. This resulted in a loss of \$331,963 for the year, when adjusted for timing.

B-14

This chart illustrates how this leveling effect has actually worked over the years 2003 - 2012.

CHART 7

Market and Actuarial Rates of Return for Years Ended June 30, 2003 - 2012



SECTION 2: Valuation Results for the Public School Teachers' Pension and Retirement Fund of Chicago

Other Experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),

- the number of disability retirements, and
- salary increases different than assumed.

The net loss from this other experience for the year ended June 30, 2012 amounted to \$34,067,791, which is less than 0.2% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the CTPF for the year ended June 30, 2012 is shown in the chart below.

CHART 8

Experience Due to Changes in Demographics for Year Ended June 30, 2012

1. Turnover	-\$1,419,978
2. Retirement	-89,792,642
3. Deaths among retired members and beneficiaries	3,837,850
4. Salary/service increase for continuing actives	1,401,162
5. Miscellaneous	<u>51,905,817</u>
6. Total	-\$34,067,791

The chart shows elements of the experience gain/(loss) for the most recent year.

SECTION 2: Valuation Results for the Public School Teachers' Pension and Retirement Fund of Chicago

D. DEVELOPMENT OF EMPLOYER COSTS

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, 2012, actuarial valuation, the ratio of the actuarial value of assets to total actuarial liabilities, or funded ratio, amounts to 54.1%. Therefore, additional State contributions will be required for Fiscal Year 2014. The total payroll for FY 2014 is projected to be \$2,341,179,200. 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 \$2,188,017,944. Based on this adjusted projected payroll for Fiscal Year 2014, we have determined the additional State contributions under Section 17-127 of the Pension Code to be \$11,903,000.

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, 2012, is 54.1%, additional Board of Education contributions will be required for Fiscal Year 2014. Based on adjusted projected payroll of \$2,188,017,944 for Fiscal Year 2014, we have determined the additional Board of Education contribution under Section 17-127.2 of the Pension Code to be \$12,691,000.

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 that, 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. Based on our projection, we have determined that the Board of Education's required contribution for Fiscal Year 2014 is \$600,009,000.

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT A

Table of Plan Coverage

	Year Ended June 30		Change From Prior Year
Category	2012	2011	
Active members in valuation:			
Number	30,366	30,133	0.8%
Average age	42.6	43.0	-0.9%
Average years of service	11.2	11.5	-2.6%
Total salary supplied by the Fund	\$2,118,235,482	\$2,090,131,858	1.3%
Average salary	69,757	69,364	0.6%
Total active vested participants	21,063	21,027	0.2%
Male members	7,048	6,949	1.4%
Female members	23,318	23,184	0.6%
Vested terminated members	4,245	4,253	-0.2%
Service retirees:			
Number in pay status	22,636	21,977	3.0%
Average age	72.1	72.0	0.1%
Average monthly benefit	\$3,870	\$3,742	3.4%
Total annual benefit	1,051,090,534	986,884,026	6.5%
Disabled retirees:			
Number in pay status	468	465	0.6%
Average age	65.6	65.3	0.5%
Average monthly benefit	\$2,621	\$2,527	3.7%
Total annual benefit	14,717,767	14,101,691	4.4%
Beneficiaries (including children) in pay status:			
Number in pay status	2,822	2,757	2.4%
Average age	74.1	74.0	0.1%
Average monthly benefit	\$1,485	\$1,417	4.8%
Total annual benefit	50,272,587	46,887,342	7.2%
Total number of members*	60,537	59,585	1.6%

*There were 17,091 retirees and beneficiaries receiving health insurance subsidies as of June 30, 2012 and 17,279 as of June 30, 2011.

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT B

**Participants in Active Service as of June 30, 2012
By Age, Years of Service, and Average Salary**

Age	Years of Service										
	Total	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	871	220	651	--	--	--	--	--	--	--	--
	\$37,068	\$14,535	\$44,682	--	--	--	--	--	--	--	--
25-29	4,308	407	3,050	850	1	--	--	--	--	--	--
	48,989	14,552	49,594	\$63,270	\$83,907	--	--	--	--	--	--
30-34	5,122	265	1,822	2,515	520	--	--	--	--	--	--
	60,845	16,055	52,751	67,411	80,274	--	--	--	--	--	--
35-39	4,301	149	848	1,493	1,532	279	--	--	--	--	--
	71,008	15,195	53,815	69,141	83,674	\$93,519	--	--	--	--	--
40-44	3,853	95	549	843	1,105	1,050	211	--	--	--	--
	76,572	16,950	50,980	68,019	82,531	91,509	\$98,631	--	--	--	--
45-49	2,877	91	336	501	570	713	561	105	--	--	--
	77,455	12,184	50,933	68,318	80,674	87,772	91,734	\$98,669	--	--	--
50-54	2,872	65	248	416	486	609	516	429	102	1	--
	79,096	11,170	43,588	65,323	79,587	85,887	91,234	94,128	\$97,526	\$64,888	--
55-59	3,062	51	181	327	392	560	528	440	459	124	--
	83,571	7,179	39,999	64,487	78,857	83,163	89,647	96,338	102,319	105,085	--
60-64	2,288	55	126	206	271	388	423	280	254	216	69
	83,910	8,020	25,760	56,452	75,582	84,563	92,958	97,230	102,975	107,248	\$108,842
65-69	656	20	40	59	70	103	111	77	70	40	66
	82,837	5,423	14,107	58,387	72,090	86,607	96,632	96,165	100,035	103,223	105,977
70 & over	156	10	24	16	21	18	13	10	17	7	20
	67,918	1,203	15,717	22,136	65,331	80,400	99,540	97,409	96,493	109,682	117,817
Total	30,366	1,428	7,875	7,226	4,968	3,720	2363	1,341	902	388	155
	\$69,757	\$14,014	\$49,452	\$66,676	\$81,258	\$87,853	\$92,266	\$95,998	\$101,674	\$106,077	\$108,780

B-18

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT C

Reconciliation of Participant Data

	Active Members	Vested Terminated Members	Retirees	Disabled Retirees	Beneficiaries	Total
Number as of June 30, 2011	30,133	4,253	21,977	465	2,757	59,585
New participants	2,699	N/A	N/A	N/A	N/A	2,699
Terminations	(1,812)	570	0	0	0	(1,242)
Retirements	(1,053)	(206)	1,259	N/A	N/A	0
New disabilities	(13)	(10)	N/A	23	N/A	0
Died with beneficiary	0	0	0	0	236	236
Died without beneficiary	(31)	(20)	(656)	(22)	(171)	(900)
Refunds	(156)	(120)	0	0	0	(276)
Rehire	599	(187)	(1)	0	N/A	411
Certain period expired	N/A	N/A	0	0	0	0
Data adjustments	<u>0</u>	<u>(35)</u>	<u>57</u>	<u>2</u>	<u>0</u>	<u>24</u>
Number as of June 30, 2012	30,366	4,245	22,636	468	2,822	60,537

B-19

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT D

Summary Statement of Income and Expenses on a Market Value Basis

	Year Ended June 30, 2012	Year Ended June 30, 2011
Net assets at market value at the beginning of the year	\$10,344,086,736	\$8,982,328,064
Contribution income:		
Employer contributions	\$203,729,011	\$208,589,994
Employee contributions	187,141,384	185,882,636
Administrative expenses	<u>-10,120,434</u>	<u>-9,527,938</u>
Net contribution income	\$380,749,961	\$384,944,692
Miscellaneous income	431,790	55,307
Federal insurance reimbursement	6,770,651	10,338,661
Investment income:		
Interest, dividends and other income	\$238,788,772	\$232,171,337
Asset appreciation	-239,806,743	1,928,712,617
Securities lending income	5,011,510	4,601,984
Less investment and administrative fees	<u>-42,076,606</u>	<u>-42,193,297</u>
Net investment income	<u>-38,083,067</u>	<u>2,123,292,641</u>
Total income available for benefits	\$349,869,335	\$2,518,631,301
Less benefit payments:		
Annuity payments	-\$1,113,884,747	-\$1,047,538,959
Death	-3,324,381	-3,260,860
Refund of contributions	-36,294,636	-27,180,518
Refund of insurance premiums	<u>-69,011,323</u>	<u>-78,892,292</u>
Net benefit payments	-\$1,222,515,087	-\$1,156,872,629
Change in reserve for future benefits	-\$872,645,752	\$1,361,758,672
Net assets at market value at the end of the year	\$9,471,440,984	\$10,344,086,736

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT E

Summary Statement of Plan Assets

	Year Ended June 30, 2012	Year Ended June 30, 2011
Cash	\$13,428,219	\$19,159,631
Accounts receivable	107,762,928	279,541,736
Investments, at fair value:		
Equities	\$5,121,676,573	\$6,375,599,574
Fixed income	2,235,679,657	1,817,433,960
Public REITs	165,423,842	298,907,749
Real estate	727,399,447	686,732,202
Short-term investments	539,724,134	486,200,107
Private equity	304,685,721	319,315,230
Infrastructure	307,980,960	275,818,888
Hedge fund	<u>173,505,261</u>	<u>177,744,777</u>
Total investments at market value	9,576,075,595	10,437,752,487
Invested securities lending collateral	588,095,853	578,003,044
Capital assets	2,366,332	2,794,812
Prepaid expenses	<u>12,220</u>	<u>0</u>
Total assets	\$10,287,741,147	\$11,317,251,710
Less accounts payable:		
Benefits payable	-\$2,569,689	-\$2,332,209
Refunds payable	-21,757,021	-14,046,884
Accounts and administrative expenses payable	-13,516,156	-13,997,618
Securities lending collateral	-613,185,665	-608,158,566
Due to broker for securities purchased	<u>-165,271,632</u>	<u>-334,629,697</u>
Total accounts payable	-\$816,300,163	-\$973,164,974
Net assets at market value	<u>\$9,471,440,984</u>	<u>\$10,344,086,736</u>
Net assets at actuarial value	<u>\$9,398,201,630</u>	<u>\$10,140,639,494</u>

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT F

Development of Unfunded Actuarial Accrued Liability

	Year Ending June 30, 2012
1. Unfunded actuarial accrued liability at beginning of year	\$6,799,986,951
2. Normal cost at beginning of year	364,247,550
3. Total contributions	390,870,395
4. Interest	
(a) Unfunded actuarial accrued liability and normal cost	\$573,138,760
(b) Total contributions	<u>14,132,782</u>
(c) Total interest: (4a) – (4b)	<u>559,005,978</u>
5. Expected unfunded actuarial accrued liability: (1) + (2) – (3) + (4c)	\$7,332,370,084
6. Changes due to (gain)/loss from:	
(a) Investments	\$685,743,831
(b) Demographics and other	<u>28,680,271</u>
(c) Total changes due to (gain)/loss: (6a) + (6b)	\$714,424,102
7. Change to due plan changes*	-69,335,447
8. Change in actuarial assumptions	<u>0</u>
9. Unfunded accrued liability at end of year: (5) + (6c) + (7) + (8)	<u>\$7,977,458,739</u>

*Due to pension overpayment settlement.

SECTION 3: Supplemental Information for the Public School Teachers’ Pension and Retirement Fund of Chicago

EXHIBIT G
Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Actuarial Accrued Liability For Actives:	The equivalent of the accumulated normal costs allocated to the years before the valuation date.
Actuarial Accrued Liability For Pensioners:	The single-sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.
Actuarial Cost Method:	A procedure allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability that are used to determine the Annual Required Contribution.
Actuarial Gain or Actuarial Loss:	A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., CTPF's assets earn more than projected, salary increases are less than assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results yield in actuarial liabilities that are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

B-23

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Actuarially Equivalent:	Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.
Actuarial Present Value (APV):	<p>The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. Each such amount or series of amounts is:</p> <ol style="list-style-type: none">Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.)Multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, andDiscounted according to an assumed rate (or rates) of return to reflect the time value of money.
Actuarial Present Value of Future Plan Benefits:	<p>The Actuarial Present Value of benefit amounts expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age, anticipated future compensation, and future service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive members entitled to either a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.</p>
Actuarial Valuation:	<p>The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial Valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB Statement No. 25, such as the funded ratio and the ARC.</p>
Actuarial Value of Assets:	<p>The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly plans use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ARC.</p>

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Actuarially Determined:	Values that have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.
Amortization Method:	A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization Payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.
Amortization Payment:	The portion of the pension plan contribution, or ARC, that is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.
Annual Required Contribution (ARC):	The employer's periodic required contributions, expressed as a dollar amount or a percentage of covered plan compensation, determined under GASB Statement No. 25. The ARC consists of the Employer Normal Cost and the Amortization Payment.
Assumptions or Actuarial Assumptions:	<p>The estimates on which the cost of the Fund is calculated including:</p> <ul style="list-style-type: none">(a) <u>Investment return</u> - the rate of investment yield that the Fund will earn over the long-term future;(b) <u>Mortality rates</u> - the death rates of employees and pensioners; life expectancy is based on these rates;(c) <u>Retirement rates</u> - the rate or probability of retirement at a given age;(d) <u>Turnover rates</u> - the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement;(e) <u>Salary increase rates</u> - the rates of salary increase due to inflation and productivity growth.

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Closed Amortization Period:	A specific number of years that is counted down by one each year, and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.
Decrements:	Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.
Defined Benefit Plan:	A retirement plan in which benefits are defined by a formula applied to the member's compensation and/or years of service.
Defined Contribution Plan:	A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.
Employer Normal Cost:	The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.
Experience Study:	A periodic review and analysis of the actual experience of the Fund that may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.
Funded Ratio:	The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA, although GASB 25 reporting requires the use of the AVA.
GASB:	Governmental Accounting Standards Board.
GASB 25 and GASB 27:	Governmental Accounting Standards Board Statements No. 25 and No. 27. These are the governmental accounting standards that set the accounting rules for public retirement systems and the employers that sponsor or contribute to them. Statement

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

No. 27 sets the accounting rules for the employers that sponsor or contribute to public retirement systems, while Statement No. 25 sets the rules for the systems themselves.

Investment Return:

The rate of earnings of the Fund from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

Margin:

The difference, whether positive or negative, between the statutory employer contribution rate and the Annual Required Contribution (ARC) as defined by GASB 25.

Normal Cost:

That portion of the Actuarial Present Value of pension plan benefits and expenses allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits that are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated.

Open Amortization Period:

An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. If the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount, or in relation to covered payroll, if the actuarial assumptions are realized.

Unfunded Actuarial Accrued Liability:

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

SECTION 3: Supplemental Information for the Public School Teachers' Pension and Retirement Fund of Chicago

**Valuation Date or
Actuarial Valuation Date:**

The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT I

Summary of Actuarial Valuation Results

The valuation was made with respect to the following data supplied to us:

1. Pensioners as of the valuation date (including 2,822 beneficiaries and 468 disabled retirees)	25,926
2. Pensioners receiving health insurance subsidies as of the valuation date	17,091
3. Members inactive during year ended June 30, 2012 with vested rights	4,245
4. Members active during the year ended June 30, 2012	30,366
Fully vested	21,063
Not vested	9,303

The actuarial factors as of the valuation date are as follows:

1. Actuarial accrued liability	\$17,375,660,369
Service retirees	\$11,736,351,672
Disabled retirees	140,454,050
Beneficiaries	443,457,911
Inactive participants with vested rights	255,812,695
Active participants:	
Retirement	4,322,561,289
Turnover	238,027,546
Mortality	139,793,672
Disability	99,201,534
2. Actuarial value of assets (\$9,471,440,984 at market value)	9,398,201,630
3. Unfunded actuarial accrued liability	\$7,977,458,739
4. Funded ratio: (2) ÷ (3)	54.1%

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT I (continued)

Summary of Actuarial Valuation Results

Components of the normal cost:	% of Payroll*	Amount
1. Retirement	10.69%	\$242,465,165
2. Turnover	1.24%	28,179,632
3. Mortality	0.46%	10,516,079
4. Disability	<u>0.35%</u>	<u>7,846,529</u>
5. Total normal cost: (1) + (2) + (3) + (4)	12.74%	\$289,007,405
6. Health insurance reimbursement	2.86%	65,000,000
7. Administrative expenses	<u>0.47%</u>	<u>10,626,456</u>
8. Total normal cost, including administrative expenses: (5) + (6) + (7)	16.07%	\$364,633,861
9. Expected employee contributions	<u>8.41%</u>	<u>-190,846,835</u>
10. Employer normal cost: (8) + (9)	7.66%	\$173,787,026

*Based on projected payroll of \$2,268,956,806.

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT II

Projection of Contributions, Liabilities, and Assets

Based on the results of the June 30, 2012 actuarial valuation, we have projected valuation results for a 47-year period commencing with Fiscal Year 2013. 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 47-year period from 2013 through 2059 by projecting the membership of the Fund over the 47-year period, taking into account the impact of new entrants into the Fund over the 47-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 47-year projection period. The results of our projections are shown on the following pages.

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT II (continued)

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 Contributions	Required Employer Contributions	Additional State Contributions	Additional BOE Contributions	Required Board of Education Contributions ¹	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2013	190.8	218.6	10.9	11.7	196.0	17,873.4	9,456.2	8,417.2	52.9%
2014	196.9	624.6	11.9	12.7	600.0	18,386.3	9,864.9	8,521.4	53.7%
2015	202.9	643.7	12.3	13.1	618.4	18,913.3	9,971.4	8,941.9	52.7%
2016	209.2	663.6	12.6	13.5	637.4	19,453.2	10,277.2	9,176.0	52.8%
2017	215.5	683.8	13.0	13.9	656.8	20,006.3	10,592.5	9,413.8	52.9%
2018	221.9	704.2	13.4	14.3	676.5	20,573.1	10,921.2	9,651.9	53.1%
2019	228.5	725.1	13.8	14.7	696.5	21,154.6	11,267.1	9,887.5	53.3%
2020	235.1	746.3	14.2	15.2	716.9	21,752.0	11,627.9	10,124.1	53.5%
2021	241.9	768.0	14.6	15.6	737.8	22,368.3	12,006.5	10,361.7	53.7%
2022	248.9	790.4	15.1	16.1	759.3	23,004.5	12,404.7	10,599.8	53.9%
2023	255.9	813.2	15.5	16.5	781.2	23,660.2	12,822.2	10,838.0	54.2%
2024	262.9	836.2	15.9	17.0	803.3	24,336.2	13,260.3	11,075.9	54.5%
2025	269.9	859.4	16.4	17.5	825.6	25,032.3	13,719.5	11,312.8	54.8%
2026	276.9	882.6	16.8	17.9	847.8	25,747.9	14,199.6	11,548.2	55.1%
2027	283.8	905.6	17.3	18.4	869.9	26,484.2	14,702.0	11,782.2	55.5%
2028	290.8	928.9	17.7	18.9	892.4	27,239.6	15,226.5	12,013.1	55.9%
2029	297.6	952.0	18.1	19.3	914.5	28,012.8	15,772.7	12,240.1	56.3%
2030	304.4	975.0	18.6	19.8	936.6	28,803.5	16,341.2	12,462.4	56.7%
2031	311.3	998.0	19.0	20.3	958.7	29,610.9	16,932.2	12,678.7	57.2%
2032	318.0	1,021.1	19.5	20.7	980.9	30,432.8	17,545.0	12,887.8	57.7%
2033	324.6	1,044.0	19.9	21.2	1,002.9	31,265.7	18,177.6	13,088.1	58.1%
2034	331.0	1,066.7	20.3	21.7	1,024.7	32,104.4	18,827.0	13,277.4	58.6%
2035	337.0	1,088.8	20.7	22.1	1,045.9	32,944.2	19,489.8	13,454.4	59.2%
2036	342.8	1,110.3	21.2	22.6	1,066.6	33,778.3	20,161.6	13,616.7	59.7%

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

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT II (continued)

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 Contributions	Required Employer Contributions	Additional State Contributions	Additional BOE Contributions	Required Board of Education Contributions	Total Actuarial Liability	Actuarial Value of Assets	Unfunded Actuarial Liability	Funded Ratio
2037	348.3	1,131.3	21.6	23.0	1,086.7	34,600.2	20,838.1	13,762.2	60.2%
2038	353.3	1,151.8	21.9	23.4	1,106.4	35,402.9	21,514.5	13,888.4	60.8%
2039	357.9	1,171.8	22.3	23.8	1,125.7	36,178.1	22,185.3	13,992.9	61.3%
2040	362.1	1,191.7	22.7	24.2	1,144.8	36,915.9	22,843.5	14,072.4	61.9%
2041	365.9	1,211.3	23.1	24.6	1,163.6	37,606.0	23,482.4	14,123.6	62.4%
2042	369.4	1,230.8	23.5	25.0	1,182.3	38,241.0	24,097.5	14,143.6	63.0%
2043	373.1	1,252.6	23.9	25.5	1,203.3	38,820.0	24,692.0	14,128.0	63.6%
2044	376.7	1,275.8	24.3	25.9	1,225.6	39,335.8	25,261.8	14,073.9	64.2%
2045	380.5	1,301.0	24.8	26.4	1,249.8	39,793.2	25,815.2	13,977.9	64.9%
2046	384.4	1,328.8	25.3	27.0	1,276.4	40,200.1	26,364.2	13,835.9	65.6%
2047	388.8	1,359.7	25.9	27.6	1,306.1	40,564.0	26,921.1	13,642.9	66.4%
2048	393.9	1,394.3	26.6	28.3	1,339.4	40,894.5	27,501.2	13,393.3	67.2%
2049	399.7	1,433.0	27.3	29.1	1,376.6	41,190.8	28,110.5	13,080.3	68.2%
2050	406.3	1,476.1	28.1	30.0	1,418.0	41,459.3	28,762.9	12,696.5	69.4%
2051	413.7	1,523.6	29.0	31.0	1,463.6	41,705.4	29,472.2	12,233.2	70.7%
2052	421.9	1,575.6	30.0	32.0	1,513.6	41,933.8	30,252.6	11,681.2	72.1%
2053	431.1	1,632.0	31.1	33.2	1,567.7	42,151.4	31,121.3	11,030.1	73.8%
2054	441.2	1,692.5	32.3	34.4	1,625.8	42,358.4	32,089.9	10,268.5	75.8%
2055	452.0	1,756.9	33.5	35.7	1,687.7	42,559.5	33,175.2	9,384.3	78.0%
2056	463.5	1,825.0	34.8	37.1	1,753.1	42,761.2	34,396.9	8,364.3	80.4%
2057	475.5	1,896.6	36.1	38.5	1,822.0	42,968.0	35,773.7	7,194.4	83.3%
2058	488.1	1,971.7	37.6	40.1	1,894.1	43,187.1	37,327.8	5,859.3	86.4%
2059	501.2	2,050.1	39.1	41.7	1,969.4	43,425.8	39,083.2	4,342.6	90.0%

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

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT III

Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

Healthy:

The UP-1994 Mortality Table for Males, set back 3 years for male participants, and the UP-1994 Mortality Table for Females, set back 2 years for female participants (adopted June 30, 2003).

Disabled:

The RP-2000 Disabled Mortality Table for Males, set back 2 years for male participants, and the RP-2000 Disabled Mortality Table for Females, set forward 5 years for female participants (adopted June 30, 2008).

The mortality table specified above was determined to contain provision appropriate to reasonably reflect future mortality improvement (actual-to-expected ratios of 134.8% for male retirees and 133.7% for female retirees, per the experience study report dated October 20, 2008), based on a review of mortality experience as of the measurement date.

Termination Rates:

Select and ultimate termination rates are based on recent experience of the Fund were used (adopted June 30, 2008). Ultimate rates after the fifth year are shown for sample ages in the table on the next page. Select rates are as follows:

<u>Years of Service</u>	<u>Rate(%)</u>
First year:	29.5
Second year:	7.1
Third year:	7.0
Fourth year:	5.6
Fifth year:	5.2

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Age	Rate (%)	
	5-10 Years of Service	10+ Years of Service
25	4.6	
30	4.8	2.4
35	4.4	2.5
40	3.7	1.9
45	3.2	1.2
50	3.0	1.0
55	3.0	1.0

Retirement Rates:

For employees first hired prior to January 1, 2011, rates of retirement for each age from 55 to 75 based on the recent experience of the Fund were used (adopted June 30, 2008). Sample rates are shown below.

Age	Rate (%)	
	<33 Years of Service	33+ Years of Service
55	5.5	12.0
60	7.7	20.0
65	10.0	19.0
70	13.7	20.0
75	100.0	100.0

For employees first hired on or after January 1, 2011, rates of retirement for each age from 62 to 75 were used (adopted June 30, 2011). Sample rates are shown below.

Age	Rate (%)
62	40.0
64	25.0
67	30.0
70	20.0
75	100.0

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Disability Rates:

Disability rates are based on the recent experience of the Fund were used (adopted June 30, 2003). Sample rates are shown below.

Age	Rate (%)
30	0.07
40	0.10
50	0.20
60	0.25

Salary Increases:

Assumed salary increases are based on the recent experience of the Fund were used (adopted June 30, 2003). Sample rates are shown below.

Age	Rate (%)
25	11.2
30	8.9
35	7.3
40	6.2
45	5.4
50	4.7
55	4.0

**Valuation of Inactive
Vested Participants:**

The liability for an inactive member is equal to his or her existing account balance, loaded by 35%.

Unknown Data for Participants:

Same as those exhibited by Participants with similar known characteristics. If not specified, Participants are assumed to be male.

Spouses:

80% of participants were assumed to be married and females are assumed to be 2 years younger than males.

Net Investment Return:

8.00% per year

Inflation:

3.00% per year

Payroll Growth:

4.00% per year

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Administrative Expenses:	Equal to actual expenses for the prior year, increased by 5%. Future expenses are assumed to grow at 5% per year.
Total Service at Retirement:	Total service at retirement is assumed to be 103.3% of the teacher's regular period of service at retirement.
Actuarial Value of Assets:	The actuarial value of assets was determined by smoothing unexpected gains and losses over a period of 4 years. The gain or loss for a year is calculated as the total investment income on the market value of assets, minus expected investment return on the prior actuarial value of assets. The final actuarial value is equal to the expected actuarial value plus (or minus) 20% of the calculated gain (or loss) in the prior 4 years.
Actuarial Cost Method:	Projected Unit Credit (adopted August 31, 1991). Under this method, the projected benefits of each individual included in the 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 accrued liability.
Changes in Assumptions:	There have been no changes in actuarial assumptions since the last valuation.

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

EXHIBIT IV
Summary of Plan Provisions

This exhibit summarizes the major provisions of the CTPF included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Membership:	Any teacher and certain other employees of the Chicago Public Schools, approved charter schools, and the Chicago Teachers' Pension Fund are members of this pension plan.
Employee Contributions:	All members of the Fund are required to contribute 9% of salary to the Fund as follows: 7.5% for the retirement pension, 1% for the spouse's pension, and 0.5% for the automatic increases in the retirement pension. 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.
Service Retirement Pension:	<p>a. Eligibility – An employee may retire at age 55 with at least 20 years of service or at age 62 with 5 years of service. If retirement occurs before age 60, the service retirement pension is reduced ½ of 1% of each month that the age of the member is below 60. However, there is no reduction if the employee has at least 34 years of service.</p> <p>b. Amount – For service earned before July 1, 1998, the amount of the service retirement pension is 1.67% of highest average salary for the first 10 years, 1.90% for each of the next 10 years, 2.10% for each of the following 10 years, and 2.30% for each year above 30. For service earned after June 30, 1998, the amount of the service retirement pension is 2.2% of highest average salary for each year of service.</p> <p>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</p>

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

within the last four years for each year of prior service, up to a maximum of 20%, which upgrades all service years. 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 highest average salary is the average of the 4 highest consecutive years of salary within the last 10 years.

The maximum pension payable is 75% of the highest annual salary or \$1,500 per month, whichever is greater.

An employee who first becomes a participant on or after January 1, 2011 is subject to the following provisions:

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 2012, the final average salary is limited to the Social Security wage base of \$108,883. Limitations for future years shall automatically be increased by the lesser of 3% or one-half the percentage change in the Consumer Price Index-U during the preceding 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 $\frac{1}{2}$ of 1% for each month that the age of the member is below 67.

Post-Retirement Increase:

An annuitant is entitled to automatic annual increases of 3% of the current pension starting the later of attainment of age 61 and receipt of one year's pension payments.

Automatic annual increases in the retirement annuity for employees who first become a participant on or after January 1, 2011 is equal to the lesser of 3% or one-half the annual change in the Consumer Price Index-U, whichever is less, based on the originally granted retirement annuity. This automatic annual increase starts the later of attainment of age 67 and receipt of one year's pension payments.

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Survivor's Pension:

A surviving spouse or unmarried minor child is entitled to a pension upon the death of an employee while in service or on retirement. The minimum survivor's pension is 50% of the deceased employee's or retired employee's pension at the date of death. If the 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 increases of 3% per year based on the current amount of pension starting the later of when the member would have attained age 61 and receipt of one year's pension payments.

For employees who first become a participant on or after January 1, 2011, the initial survivor's pension is equal to $66\frac{2}{3}\%$ 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. This automatic annual increase starts the later of when the member would have attained age 67 and receipt of one year's pension payments.

Single Sum Death Benefit:

Upon the death of an employee in service, a refund equal to the total contributions less contributions for survivor's pensions is payable.

A death benefit is payable upon the death of an employee in service in addition to any other benefits payable to the surviving spouse or minor children. The death benefit payable is the lesser of \$10,000 and salary earned for the most recent six months.

Upon the death of a retired member, the death benefit is the lesser of \$10,000 and the most recent salary earned for a 6 month period less 20% of the death benefit for each year that the member has been on pension, to a minimum of \$5,000.

Non-Duty Disability Benefit:

A non-duty disability pension is payable in the event of total or permanent disability with 10 or more years of service. The benefit is the unreduced service retirement pension. However, if the participant has 20 or more and less than 25 years of service and is under age 55, the benefit is reduced by $\frac{1}{2}$ of 1% for each month that the age of the member is below 55 down to a minimum age of 50, but not less than the unreduced service retirement pension with 20 years of service.

SECTION 4: Reporting Information for the Public School Teachers' Pension and Retirement Fund of Chicago

Duty Disability Benefit:	Upon disability resulting from an injury incurred while working, an employee is entitled to a disability benefit of 75% of final average salary until age 65. At age 65, the disabled employee shall receive a service retirement pension, which includes service earned while disabled.
Refunds:	<p>An employee who terminates employment before qualifying for a pension is entitled to a refund of employee contributions, without interest.</p> <p>An employee who is unmarried at date of retirement is entitled to a refund of the full amount contributed for the survivor's pension, without interest.</p>
Retiree Health Insurance:	<p>A recipient of a service retirement, disability, or survivor's pension is eligible for a partial reimbursement of the cost of health insurance coverage, which may be in the form of an annual direct payment or a reduction in the amount deducted from the monthly annuity.</p> <p>Effective January 1, 2011, the Board provides reimbursement of 60% of the cost of pensioners' health insurance coverage. The total amount of payments in any year may not exceed 75% of the total cost of health insurance coverage in that year for all recipients who receive payments in that year.</p> <p>Total payments may not exceed \$65,000,000 plus any amount that was authorized to be paid in the preceding year but was not actually paid (including any interest earned).</p>
Plan Year:	July 1 through June 30
Changes in Plan Provisions:	There have been no changes in plan provisions since the last valuation.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

Summary of Certain Provisions of the Indenture

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

Definitions of Certain Terms

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

“Additional Bonds” means any Alternate Bonds issued 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 any applicable Prior Authorization Bonds and Bonds secured by such Pledged State Aid Revenues.

“Alternate Bonds” means general obligation bonds payable from any revenue source as provided by the Act.

“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 the Indenture, (c) any Substitute Adjustment Date designated in the manner set forth in the Indenture, (d) any proposed Term Rate Conversion Date or Fixed Rate Conversion Date designated in the manner set forth in the Indenture and (d) any proposed Index Floating Rate Conversion Date or any date on which a new Index Floating Rate Period designated in the manner set forth in the Indenture commences.

“Authorized Denominations” means, (a) with respect to a particular Bond in a an Index Floating Rate Mode, \$100,000 and any multiple of \$5,000 in excess thereof, and (b) after the Term Rate Conversion Date or Fixed Rate Conversion Date with respect to a particular Bond, \$5,000 and any integral multiple thereof.

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

“Board” means the school district coterminous with the City of Chicago, which is a body politic and corporate by the name of the “Board of Education of the City of Chicago,” governed by the Chicago Board of Education.

“Bond Counsel” means the firm of Katten Muchin Rosenman LLP, Chicago, Illinois, or any other law firm designated by the Board having a national reputation in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds, acceptable to the Trustee.

“Bond Payment Account” means the account of that name established in the Indenture.

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

“Bond Resolution” means Resolution No. 13-0403-RS1, adopted by the Board on April 3, 2013, authorizing the issuance of the Bonds.

“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.

“Business Day” means any day other than a Saturday, Sunday or (a) a day on which banking institutions located (i) in the city in which the designated office of the Trustee is located, (ii) in the city in which the office of the Credit Provider at which drawings under the Credit Facility drawings are to be honored is located, (iii) 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 or (iv) in the city in which the principal office of the Remarketing Agent is located, are required or authorized to remain closed or (b) a day on which The New York Stock Exchange is closed.

"Calculation Agent" means a calculation agent selected by the Board, its successors and assigns having the duties and responsibilities set forth in the Indenture. The initial Calculation Agent is the Trustee.

"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.

"Consumer Price Index" or *"CPI-U"* means the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers as released monthly by the U.S. Department of Labor, Bureau of Labor Statistics. If a previously reported CPI-U index rate is revised, the CPI-U will continue to be the previously reported CPI-U for purposes of calculating interest payments. If CPI-U is rebased to a different year, Bonds using the CPI-U will continue to use the CPI-U based on the base reference year in effect when such Bonds were issued.

If the applicable methodology for computing the CPI-U in effect on the date of issuance of Bonds using the CPI-U is discontinued or altered and if the U.S. Treasury, in response to such discontinuance or alteration, substitutes an alternative index, and associated method of application (*"Substitute Index and Methodology"*), for the CPI-U for purposes of calculation of the inflation adjustment for the Treasury Inflation-Protection Securities, Bonds using the CPI-U will use the Substitute Index and Methodology for calculating the Index Floating Rate for such Bonds. Typically the CPI-U for a particular month is reported by the last day of the following month. If the CPI-U for a particular month is not reported by the last day of the following month, the U.S. Treasury has indicated it will announce an index number based on the last available twelve-month change in the CPI-U. Any calculations of interest on Bonds that rely on that month's CPI-U will be based on the index number that the U.S. Treasury has announced. This index number will be used for all subsequent calculations that rely on that month's index number and will not be replaced by the actual CPI-U when it is reported.

"Costs of Issuance Account" means the account of that name established in the Indenture.

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

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

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

"Daily Mode" means the Interest Mode during which the Bonds bear interest at the Daily Rate.

"Daily Rate" means the per annum interest rate on any Bond in the Daily Mode determined pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period.

"Date of Issuance" means the date of original issuance and delivery of the Bonds.

"Debt Service Fund" means the fund of that name established in the Indenture.

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

"Defeasance Obligations" means (a) Defeasance Government Obligations and (b) Pre-refunded Municipal Obligations.

“*Deposit Date*” means February 15 of each year beginning February 15, 2014 or such earlier date as may be necessary to permit the Board to lawfully make the abatement of taxes described in 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.

“*DTC*” means The Depository Trust Company, New York, New York.

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

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

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

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

“*Flexible Mode*” means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 30 days (or such duration as short as one (1) day as may be approved by a Designated Official by written notice to the Trustee and the Remarketing Agent) nor more than 396 days) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Flexible Rate.

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

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

“*Government Obligations*” means (a) any direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America and (b) certificates of ownership of the principal of or interest on obligations of the type described in clause (a) of this definition, (i) 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, (ii) 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 (iii) for which the underlying obligations are held in safekeeping in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated.

“*Indenture*” means the Trust Indenture, dated as of May 1, 2013, by and between the Board and the Trustee, as from time to time amended and supplemented.

“Index” means any of (a) One Month LIBOR, (b) Three Month LIBOR, (c) the S&P Weekly High Grade Index, (d) the SIFMA Index, or (e) the Consumer Price Index. The initial Index for the Series 2013A-1 Bonds in the Index Floating Rate Mode shall be One Month LIBOR. The initial Index for the Series 2013A-2 Bonds in the Index Floating Rate Mode shall be the SIFMA Index. The initial Index for the Series 2013A-3 Bonds in the Index Floating Rate Mode shall be the SIFMA Index.

“Index Floating Rate” means the Initial Index Floating Rate for the Bonds on the Date of Issuance and thereafter a rate of interest per annum established in accordance with Section 2.2(G) of this Indenture.

“Index Floating Rate Conversion Date” means an Adjustment Date for any Bond on which it begins to bear interest at a new Index Floating Rate, including an Adjustment Date following a preceding Index Floating Rate Period.

“Index Floating Rate Mode” means the Interest Mode in which the interest rate on the Bonds is set with reference to an Index.

“Index Floating Rate Period” means each period (which shall be a period of one day or more, but not ending after the Maturity Date of the Bonds) during which an Index Floating Rate is in effect for all or any portion of the Bonds (including a new Index Floating Rate Period following a preceding Index Floating Rate Period).

“Initial Index Floating Rate” means for the Series 2013A-1 Bonds, the sum of the 70% of One Month LIBOR plus 0.58%, for the Series 2013A-2 Bonds, the sum of the SIFMA Index plus 0.75%, and for the Series 2013A-3 Bonds, the sum of the SIFMA Index plus 0.83%.

“Initial Index Floating Rate Period” means for the Series 2013A-1 Bonds with an Index Floating Rate Period commencing on the Date of Issuance to June 1, 2016, for the Series 2013A-2 Bonds with an Index Floating Rate Period commencing on the Date of Issuance to June 1, 2017 and for the Series 2013A-3 Bonds with an Index Floating Rate Period commencing on the Date of Issuance to June 1, 2018.

“Initial Interest Payment Date” means July 1, 2013.

“Initial Interest Period” means the period from and including the Date of Issuance to and including the day immediately preceding the immediately succeeding Rate Change Date.

“Interest Deposit Sub Account” means the sub-account of that name in the Payment Sub-Account of the Pledged State Aid Revenues Account established in in 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 the Indenture. An Interest Mode may be a Daily Mode, Weekly Mode, a Flexible Mode, an Index Floating Rate Mode (including an Index Floating Rate Mode following a preceding Index Floating Rate Mode), a Term Rate Mode or a Fixed Mode.

“Interest Payment Date” means each Initial Interest Payment Date and, thereafter, (a) for each Bond, each Adjustment Date therefor, (b) for any Bond in the Daily Mode, Weekly Mode or Index Floating Rate Mode, the first Business Day of each calendar month, (c) for any Bond in a Flexible Mode, each Rate Change Date therefor, (d) for any Bond in the Term Rate Mode, each Stated Interest Payment Date occurring in such Rate Period (beginning with the first Stated Interest Payment Date that occurs no earlier than 6 months after the commencement of such Rate Period), (e) for any Bond in a Fixed Mode, each March 1 and September 1 commencing as provided in the Indenture, (f) for any Credit Provider Bond, such dates as are specified in the Credit Provider Bond or in the Reimbursement Agreement, and (g) for each Bond, the Maturity Date thereof and any redemption date; 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 (f), in no event shall more than one Interest Payment Date for the Bonds occur in any one calendar month.

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

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

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

- (a) Government Obligations;
- (b) 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;
- (c) Senior debt obligations issued by the Fannie Mae or the Federal Home Loan Mortgage Corporation and senior debt obligations of other government agencies which at the time of purchase are rated within the 4 highest general classifications established by a rating service of nationally recognized expertise or are expressly secured by the full faith and credit of the United States of America;
- (d) U.S. dollar denominated deposit accounts, certificates of deposit (including those placed by a third party pursuant to an agreement between the Trustee and the Board), demand deposits, including interest bearing money market accounts, trust deposits, time deposits, federal funds and banker’s acceptances with domestic commercial banks (including the Trustee and its affiliates) which on the date of purchase have any two of the following ratings on their short-term certificates of deposit: *“A-1”* or *“A-1+”* by S&P, *“P-1”* by Moody’s and *“F1”* or *“F1+”* by Fitch, and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
- (e) Commercial paper which at the time of purchase has any two of the following ratings: *“A-1”* or above by S&P, *“P-1”* by Moody’s and *“F1”* by Fitch, and which matures not more than 180 days after the date of purchase;
- (f) Investments in a money market fund which at the time of purchase is rated *“AAAm”* or *“AAAm-G”* or better by S&P, including those for which the Trustee or an affiliate performs services for a fee, whether as a custodian, transfer agent, investment advisor or otherwise;
- (g) Repurchase Agreements;
- (h) Pre-refunded Municipal Obligations;
- (i) Forward Supply Contracts; and
- (j) Any other investment securities authorized by law and the Investment Policy as permitted investments of Board funds as to which the Board has received written advice from each Rating Service that investment in such securities will not result in a reduction of the rating by such Rating Service.

Ratings of Investment Securities referred to herein shall be determined at the time of purchase of such Investment Securities and without regard to ratings subcategories.

“Maximum Interest Rate” means the lesser of (i) the Statutory Maximum Rate or (ii) 15%.

“One Month LIBOR” means the rate for deposits in U.S. dollars with a one-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 A.M., London time, on the Rate Determination Date, except that, if such rate is not available on the Rate Determination Date, One Month LIBOR means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 A.M., London time, on the Rate Determination Date, to prime banks in the London interbank market by at least two Reference Banks. The Trustee shall request the principal London office of each of such Reference Banks to provide a quotation of its rate.

If at least two such quotations are provided, One Month LIBOR will be the arithmetic mean of such quotations. If fewer than two quotations are provided, One Month LIBOR will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Trustee, at approximately 11:00 A.M., New York City time, on the Rate Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a one-month maturity. If none of the banks in New York City selected by the Trustee is then quoting rates for such loans, then One Month LIBOR for the ensuing interest period will mean One Month LIBOR then in effect in the immediately preceding Index Floating Rate Period.

“Opinion of Bond Counsel” means a written opinion of Bond Counsel in form and substance acceptable to the Board and the Trustee, which opinion may be based on a ruling or rulings of the Internal Revenue Service.

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

“Par Call Date” means, with respect to the Bonds in the Index Floating Rate Mode, (i) in any Index Floating Rate Period, except as provided in (ii) below, the date which is six months prior to the end of the then current Index Floating Rate Period or (ii) any other date designated by the Board, provided the Trustee has received an Opinion of Bond Counsel to the effect that the designation of such other Par Call Date will not have an adverse effect on the exclusion from gross income for Federal income tax purposes of the interest on the Bonds.

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

“Pledged State Aid Revenues” means, with respect to the Series 2013A-1 Bonds, that amount of State Aid Revenues not in excess of the amount available pursuant to the 2008 Authorization in any year, as shall provide for the payment of the 2008 Authorization Bonds and the Series 2013A-1 Bonds, and any Additional Bonds issued pursuant to the 2008 Authorization and the provision of not less than an additional .10 times debt service thereon in such year; with respect to the Series 2013A-2 Bonds allocated to the 2024-2031 sinking fund payments, that amount of State Aid Revenues, not in excess of the amount available pursuant to the 2006 Authorization in any year, as shall provide for the payment of the 2006 Authorization Bonds, the 2013A-2 Bonds allocated to the 2024-2031 sinking fund payments and any Additional Bonds issued pursuant to the 2006 Authorization and the provision of not less than an additional .10 times debt service thereon in such year; and with respect to the Series 2013A-2 Bonds allocated to the 2032-2035 sinking fund payments and the Series 2013A-3 Bonds, that amount of State Aid Revenues, not in excess of the amount available pursuant to the 2009 Authorization in any year, as shall provide for the payment of the 2009 Authorization Bonds, the 2013A-2 Bonds allocated to the 2032-2035 sinking fund payments, the Series 2013A-3 Bonds and any Additional Bonds issued pursuant to the 2009 Authorization and the provision of not less than an additional .10 times debt service thereon in such year.

“Pledged State Aid Revenues Account” means the account of that name in the Debt Service Fund established in in the Indenture.

“Pledged State Aid Revenues Sub-Account” means the sub-account of that name in the Payment Sub-Account of the Pledged State Aid Revenues Account.

“Pledged Taxes” means the ad valorem taxes levied or to be levied pursuant to the covenant contained in in the Indenture against all of the taxable property in the School District without limitation as to rate or amount, and pledged hereunder.

“Pledged Taxes Account” means the account of that name in the Debt Service Fund established in in the Indenture.

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

(a) which are rated, based on an irrevocable escrow account or fund (the *“escrow”*), the same or higher than obligations of the United States of America by any two of S&P, Moody’s and Fitch 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 the Indenture.

“Prior Authorizations” means with respect to the Series 2013A-1 Bonds, the 2008 Authorization; with respect to the Series 2013A-2 Bonds allocated to the 2024-2031 sinking fund payments for such Bonds, the 2006 Authorization; with respect to the Series 2013A-2 Bonds allocated to the 2032-2035 sinking fund payments for such Bonds and the Series 2013A-3 Bonds, the 2009 Authorization.

“Prior Authorization Bonds” means with respect to the Series 2013A-1 Bonds, the 2008 Authorization Bonds; with respect to the Series 2013A-2 Bonds allocated to the 2024-2031 sinking funds payments for such Bonds, the 2006 Authorization Bonds; and with respect to the Series 2013A-2 Bonds allocated to the 2032 to 2035 sinking fund payments for such Bonds and the Series 2013A-3 Bonds, the 2009 Authorization Bonds.

“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 or an Index Floating Rate Mode, the Business Day immediately preceding each Interest Payment Date for such Bond, (b) with respect to Bonds in a Term Rate Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date, and (c) 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 1, or on or after August 15 but prior to September 1, the Record Date shall be the Fixed Rate Conversion Date.

“*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.

“*S&P Weekly High Grade Index*” (formerly the J.J. Kenny Index) means the index of such name maintained by S&P for weekly obligations, as published on the Rate Determination Date.

“*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 2004C Swap Agreement*” means, collectively, the ISDA Master Agreement, the Schedule thereto and the Credit Support Annex, each dated as of July 14, 2006 and Swap Transaction 1449305 / 1485817, dated February 22, 2007, each between the Board and Royal Bank of Canada.

“*Series 2005D Swap Agreement*” means, collectively, (i) the ISDA Master Agreement and the Schedule thereto dated October 25, 2005 between the Board the Loop Financial Products I LLC (“*Loop*”), as amended by the First Amendment to ISDA Master Agreement dated as of December 8, 2005 between Loop and the Board, (ii) the Credit Support Annex, dated as of October 20, 2005 between Loop and the Board, (iii) the Transaction Transfer Agreement, dated as of October 20, 2005 among Loop, the Board and Deutsche Bank AG, New York Branch (“*Deutsche Bank*”) as amended by the First Amendment to Transaction Transfer Agreement dated as of December 8, 2005 among Loop, the Board and Deutsche Bank and (iv) Swap Transaction 112005 dated November 30, 2005 between Loop and the Board (the “*Swap Transaction*”).

“*Series 2009A Swap Agreement*” means that portion of the Series 2005D Swap Agreement allocable from time to time to the 2009A Bonds.

“*Series 2009B Swap Agreement*” means that portion of the Series 2004C Swap Agreement allocable from time to time to the 2009B Bonds, being the portion amortizing on March 1 of the years 2024 to 2031, inclusive.

“*Series 2010A Swap Agreement*” means that portion of the Series 2004C Swap Agreement allocable from time to time to the Series 2010A Bonds, being the portion amortizing on March 1 of the years 2032 to 2035, inclusive.

“*Series 2010B Swap Agreement*” means that portion of the Series 2005D Swap Agreement allocable from time to time to the Series 2010B Bonds, being the portion identified in the Swap Transaction as “Tranche 1”.

“*Series 2013A-1 Swap Agreement*” means the Series 2009A Swap Agreement allocable to the Series 2013A-1 Bonds.

“*Series 2013A-2 Swap Agreement*” means collectively, the Series 2009B Swap Agreement allocable to the Series 2013A-2 Bonds.

“*Series 2013A-3 Swap Agreement*” means the Series 2010B Swap Agreement allocable to the Series 2013A-3 Bonds.

“*Short Mode*” means a Flexible Mode, Daily Mode or a Weekly Mode.

“*SIFMA Index*” means the “*SIFMA Municipal Swap Index*”TM (such index previously known as the “*Bond Market Association/PSA Municipal Swap Index*”TM) 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 “*SIFMA Municipal Index*” means such other reasonably comparable index selected by the Board.

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

“*Statutory Maximum Rate*” means the maximum rate of interest permitted for the Bonds from time to time pursuant to applicable law, including the Bond Authorization Act of the State, as amended. Currently it is a rate not exceeding the greater of 9% per annum or 125% of the rate for the most recent date shown in the 20 G.O. Bonds Index of average municipal bond yields as published in the most recent edition of Bond Buyer published in New York, New York, at the time the contract is made for the sale of the Bonds (including any change in a variable rate or a demand for purchase).

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

“*Swap Agreement*” means any agreement between the Board and a counterparty, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis different from that provided in the Bonds for the payment of interest.

“*Swap Payment*” means, with respect to each Swap Agreement, each periodic scheduled payment owing to the Swap Provider made with respect to the notional amount identified in such Swap Agreement. For purposes of this Indenture, “*Swap Payment*” excludes any non-scheduled payments, including but not limited to termination payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

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

“*Term Rate Mode*” means any Adjustment Period during which the Rate Determination Date and the Rate Change Date for each Rate Period therein (which shall have a duration which is not less than 12 months nor extend beyond the Maturity Date) shall occur on the first day of such Rate Period which shall be designated by the Remarketing Agent pursuant to the Indenture, and during which the Bonds which bear interest during such Adjustment Period bear interest at the Term Rate.

“*Three Month LIBOR*” means the rate for deposits in U.S. dollars with a three-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 A.M., London time, on the Rate Determination Date, except that, if such rate is not available on the Rate Determination Date, Three Month LIBOR means a rate determined on the basis of the rates at which deposits in U.S. dollars for a three-month maturity and in a principal amount of at least U.S. \$1,000,000 are offered at approximately 11:00 A.M., London time, on the Rate Determination Date, to prime banks in the London interbank market by at least two Reference Banks. The Trustee shall request the principal London office of each of such Reference Banks to provide a quotation of its rate.

If at least two such quotations are provided, Three Month LIBOR will be the arithmetic mean of such quotations. If fewer than two quotations are provided, Three Month LIBOR will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Trustee, at approximately 11:00 A.M., New York City time, on the Rate Determination Date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. \$1,000,000 having a three-month maturity. If none of the banks in New York City selected by the Trustee is then quoting rates for such loans, then Three Month LIBOR for the ensuing interest period will mean Three Month LIBOR then in effect in the immediately preceding Rate Period.

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A. and any successor or successors appointed under this Indenture as hereinafter provided. The “*designated office*” of the Trustee means 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, or such other address as is provided by the Trustee.

“*Trust Estate*” means the Pledged State Aid Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Granting Clauses of this Indenture.

“*2008 Authorization*” means the authorization adopted by the Board pursuant to Resolution No. 08-0227-RS13 authorizing the issuance of Alternate Bonds, in an amount not to exceed \$1,900,000,000.

“*2008 Authorization Bonds*” means the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009E, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009F and the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009G.

“*2009 Authorization*” means the authorization adopted by the Board pursuant to Resolution 09-0722-RS11 authorizing the issuance of Alternate Bonds, in an amount not to exceed \$2,300,000,000.

“*2009 Authorization Bonds*” means the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010A, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010B, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010C, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010D, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010F, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2010G, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2011A, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2011C, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2011D and the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2012A.

“*2006 Authorization*” means the authorization adopted by the Board pursuant to Resolution No. 06-0628-RS78 authorizing the issuance of Alternate Bonds, in an amount not to exceed \$750,000,000.

“*2006 Authorization Bonds*” means the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2006B, the Outstanding Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2007D, the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009B and the Outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009D.

“*Weekly Mode*” means an Interest Mode during which the rate of interest borne by the Bonds is determined on a weekly basis as set forth in the Indenture.

“*Weekly Rate*” means, for each Rate Period during any Weekly Mode, the rate of interest established pursuant to the Indenture equal to the lowest interest rate which, in the judgment of the Remarketing Agent, would enable such Bond to be remarketed at the principal amount thereof, plus accrued interest thereon, if any, on the Rate Change Date for such Rate Period.

Pledge of Trust Estate

In order to secure the payment of the principal of, premium, if any, and interest on all Bonds issued under the Indenture, according to the import thereof, and the performance and observance of each and every covenant

and condition in the Indenture and in the Bonds contained, and for and in consideration of the premises and of the acceptance by the Trustee of the trusts created by the Indenture, and of the purchase and acceptance of the Bonds by the respective Owners thereof, and for the purpose of fixing and declaring the terms and conditions upon which such Bonds shall be issued, authenticated, delivered, secured and accepted by all Persons who shall from time to time be or become Owners thereof, the Board pledges and grants in the Indenture a lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, for the benefit of the Owners and any Swap Providers, to the extent provided in the Indenture:

(a) The Pledged State Aid Revenues and the Pledged Taxes as described in the Indenture;

(b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture except the Costs of Issuance Account, the Bond Purchase Fund, or elsewhere (including amounts held by the Remarketing Agent) to pay the purchase price of the Bonds delivered or deemed delivered for purchase pursuant to the Indenture; and

(c) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other Persons to be held by the Trustee under the terms of the Indenture.

Pursuant to Section 13 of the Debt Reform Act, the moneys, securities and properties pledged under the Indenture and received by the Board, shall immediately be subject to the lien and pledge of the Indenture without any physical delivery or further act, and the lien and pledge under the Indenture shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Board, irrespective of whether such parties have notice of the lien and the pledge.

The Bonds Are General Obligations

The Bonds are at all times outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable from, in addition to the Pledged State Aid Revenues, the Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the Pledged Taxes shall have been extended for collection, in which case the Outstanding Bonds shall to the extent required by law be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows that the Bonds have been paid from the Pledged State Aid Revenues for a complete fiscal year of the Board.

Additional Bonds Payable From Pledged State Aid Revenues

Except as described in the following two paragraphs, the Board shall not issue any bonds or other evidences of indebtedness, other than the Bonds, which are secured by a pledge of or lien on the Pledged State Aid Revenues, the Pledged Taxes or the moneys, securities, or funds held or set aside by the Board or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Pledged State Aid Revenues, the Pledged Taxes or such moneys, securities or funds.

The Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the Pledged State Aid Revenues or any other source of payment which may be pledged under the Debt Reform Act, and any such Additional Bonds shall share ratably and equally in the applicable Pledged State Aid Revenues with the applicable Bonds; *provided, however*, that no Additional Bonds shall be issued except in accordance with the provisions of the Debt Reform Act 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. Such subordinate obligations will be paid from Pledged State Aid Revenues that are available to the Board in each year in excess of those required to be deposited in the Pledged State Aid Revenues Sub-Account during such Year.

Provisions Regarding Payment of Bonds

The principal and redemption price of the Bonds shall be payable at the designated corporate trust offices of the Trustee, as Paying Agent, and at such offices of any co-Paying Agent or successor Paying Agent or Paying Agents appointed pursuant to the Indenture for the Bonds. Interest on the Bonds shall be payable by check or bank draft mailed or delivered by the Trustee to the Owners as the same appear on the registration books of the Board maintained by the Registrar as of the Record Date or, at the option of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds, by wire transfer of Current Funds to such bank in the continental United States as said Owner shall request in writing to the Registrar no later than the Record Date. The Bonds shall be payable, with respect to interest, principal and redemption premium (if any) in any coin, or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

Establishment and Application of the Costs of Issuance Account

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

Establishment and Application of Debt Service Fund and Accounts

The Debt Service Fund and the following Accounts within the Debt Service Fund are established with the Trustee to be held and applied in accordance with the provisions of the Indenture: (a) Pledged State Aid Revenues Account, consisting of (i) Deposit Sub-Account; (ii) the Payment Sub-Account which shall further consist of the Interest Deposit Sub-account and the Pledged State Aid Revenues Sub-Account; (b) Pledged Taxes Account; (c) Bond Payment Account, consisting of (i) the Interest Sub-Account (ii) the Principal Sub-Account; and (d) Swap Payment Account.

Investment of Funds

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and the Costs of Issuance Account shall be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters of the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund or Account. Nothing contained in the Indenture shall be construed to prevent such Designated Official from directing the Trustee to make any such investments or reinvestments through the use of a Forward Supply Contract, to the extent permitted by Illinois law and the Investment Policy, and the Trustee shall comply with the terms and provisions of any such Forward Supply Contract. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. The Board has provided a certified copy of the Investment Policy to the Trustee in connection with the initial delivery of the Bonds and the Board covenants and agrees to provide to the Trustee in a timely fashion any amendments to or revisions of such Investment Policy. The Trustee shall be entitled to conclusively rely on the Investment Policy provided to it by the Board as the Investment Policy in effect at the time any

investment is made. The Trustee may conclusively rely upon the Designated Official's written instructions as to both the suitability and legality of the directed investments and the conformity of directed investments with the Investment Policy. Absent the provision of investment instructions, the Trustee shall hold such amounts uninvested under the Indenture; *provided, however*, that the Trustee shall notify the Board in the event any moneys are being held uninvested pursuant to the Indenture. All investment income shall be retained in the Fund or Account to which the investment is credited from which such income is derived.

Valuation and Sale of Investments

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

The value of Investment Securities shall mean the fair market value thereof, provided, however, that all SLGs shall be valued at par and those obligations which are redeemable at the option of the holder shall be valued at the price at which such obligations are then redeemable.

Except as otherwise provided in the Indenture, the Trustee at the written direction of a Designated Official shall sell at the best price obtainable, or present for redemption, any Investment Securities held in any Fund, Account or Sub-Account held by the Trustee whenever it shall be necessary to provide moneys to meet any payment or transfer from such Fund, Account or Sub-Account as the case may be.

Swap Agreements

With respect to the Bonds, the Board may enter into one or more of the agreements authorized by Section 7 of the Bond Authorization Act of the State of Illinois. The Board may designate any such agreement as a Swap Agreement by filing with the Trustee (i) an executed counterpart of such agreement and (ii) a written notice that such agreement has been designated as a Swap Agreement for the purposes of the Indenture. The Trustee has acknowledged receipt of executed counterparts of the Series 2013A-1 Swap Agreement, the Series 2013A-2 Swap Agreement and the Series 2013A-3 Swap Agreement, which the Board has designated as Swap Agreements to be associated with each Sub-series of the Bonds, respectively. Each Swap Payment under a Swap Agreement shall be payable from the Swap Payment Account. The stated notional amount under all such Swap Agreements shall not in the aggregate exceed the then outstanding principal amount of the Bonds (net of offsetting Swap Agreements). Each Swap Agreement shall satisfy the following conditions precedent: (i) each Rating Service (if such Rating Service also rates the unsecured obligations of the proposed Swap Provider or any Person who guarantees the obligations of the Swap Provider under the Swap Agreement) shall have assigned the unsecured obligations of the Swap Provider or such guarantor, as of the date the Swap Agreement is entered into, a rating that is equal or higher than the rating then assigned to the Outstanding Bonds by such Rating Service, and (ii) the Board shall have notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor, if any, under the Swap Agreement) in writing, at least fifteen days prior to executing and delivering the Swap Agreement of its intention to enter into the Swap Agreement and has received from such Rating Service a written indication that the entering into the Swap Agreement by the Board will not in and of itself cause a reduction or withdrawal by such Rating Service of its unenhanced rating on the Outstanding Bonds.

Particular Covenants and Representations of the Board

Covenants Regarding Pledged State Aid Revenues

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

Covenants Regarding Pledged Taxes

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. As long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be necessitated by changes in State law, procedures, rules or regulations thereunder with respect to the collection and distribution of *ad valorem* property taxes; *provided* that no such modification or amendment shall provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year.

As described in the Official Statement under the heading “SECURITY FOR THE BONDS –Debt Service Funds and Accounts-Pledged State Aid Revenues Account,” the Board shall direct such abatement of the Pledged Taxes in whole or in part as may be required, and proper notification of any such abatement shall be filed with (i) the County Clerks, in a timely manner to effect such abatement, and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

As long as there are any Outstanding Bonds, the Board and its officers will comply with all present and future applicable laws in order to assure that the Pledged Taxes may be levied and extended and collected and deposited to the Pledged Taxes Account as described above.

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

Accounts and Reports

The Board shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Pledged State Aid Revenues, the Pledged Taxes and the Funds, Accounts and Sub-Accounts established by the Indenture, and which, together with all other books and financial records of the Board, shall at all reasonable times be available for the inspection of the Trustee and the Owners of not less than twenty-five percent in aggregate principal amount of Outstanding Bonds or their representatives duly authorized in writing.

Tax Covenants

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

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

Events of Default and Remedies

Events of Default

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

- (1) If a default shall occur in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable;
- (2) If a default shall occur in the due and punctual payment of the principal or redemption price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;
- (3) If a default shall occur in the performance or observance by the Board of any other of the covenants, agreements or conditions in the Indenture or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds, provided that if the nature of the default is such that it cannot be cured within the 60-day period but can be cured within a longer period, no event of default shall occur if the Board institutes corrective action within the 60-day period and diligently pursues such action until the default is corrected (provided such default is correctable); or
- (4) If the Board shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State.

Proceedings Brought by Trustee

There is no provision for the acceleration of the Bonds if an Event of Default occurs under the Indenture.

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon identical written request of the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding and upon being indemnified to its satisfaction, shall proceed, to protect and enforce its rights and the rights of the Owners of the Bonds under the Bonds or the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Board as if the Board were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture or enforcing any of the rights or interests of the Owner of the Bonds under the Bonds or the Indenture.

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

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

The Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or for the exercise of any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

Application of Trust Estate and Other Moneys on Default

During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, funds, Pledged State Aid Revenues and Pledged Taxes and the income therefrom (other than any amounts not constituting part of the Trust Estate) as follows and in the following order:

- (a) To the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it; and
- (b) To the payment of the principal and redemption price of, and interest on, the Bonds then due, as follows:

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

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

- (c) To the payment of Swap Payments, if any.

If and whenever all overdue installments of principal and redemption price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal and redemption price of and accrued unpaid interest on all Bonds held by or for the account of the Board, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the

Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Restriction on Owners' Actions

No Owner of any Bond shall have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, and the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of the State or to institute such suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

Remedies Conferred By the Debt Reform Act

The Board and the Trustee each acknowledge that Section 15(e) of the Debt Reform Act provides that all covenants of the Board relating to the issuance of the Bonds as Alternate Bonds pursuant to Section 15 of the Debt Reform Act and the conditions and obligations imposed by said Section 15 are enforceable by any Owner of the Bonds, any taxpayer of the Board and the people of the State 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 Debt Reform Act, the plaintiff in any such action shall be awarded reasonable attorneys' fees.

Remedies Not Exclusive

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

Waiver

The Owners of not less than two-thirds in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or principal or redemption price of any of the Bonds when due. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Provisions Relating To Trustee

Resignation and Removal of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days written notice to the Board, all Owners of the Bonds and the other Fiduciaries, and such resignation shall take effect upon the day specified in such notice but only if a successor shall have been appointed by the Board or the Owners as provided in the Indenture and accepted such appointment, in which event such resignation shall take effect immediately on the acceptance of such appointment by such successor whether or not the date specified for such resignation to take effect has arrived. If a successor Trustee shall not have been appointed and accepted such appointment within a period of 60 days following the giving of notice, then the Trustee shall be authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below under “– *Appointment of Successor Trustee.*”

The Trustee may be removed at any time by an instrument in writing approved by and executed in the name of the Board and delivered to the Trustee; *provided, however*, that if an Event of Default shall have occurred and be continuing, the Trustee may be so removed by the Board only with the written concurrence of the Owners of a majority in aggregate principal amount of Bonds then Outstanding (excluding any Bonds held by or for the account of the Board). The Trustee may be removed at any time by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the Board. Copies of each such instrument shall be delivered by the Board to each Fiduciary.

Appointment of Successor Trustee

In case at any time the Trustee shall resign, be removed or become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer or court shall take charge or control of the Trustee, or of its property or affairs, the Board shall appoint a successor Trustee. The Board shall cause notice of any such appointment made by it to be mailed to all Owners of the Bonds.

If no appointment of a Trustee shall be made by the Board within 60 days following such resignation or removal pursuant to the foregoing provisions of the Indenture, the Trustee or the Owner of any Bond Outstanding hereunder may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee shall be a bank, trust company or national banking association, doing business and having a corporate trust office in the State, and having capital stock and surplus aggregating at least \$15,000,000, or shall be a wholly-owned subsidiary of such an entity, if there be such a bank, trust company, national banking association or subsidiary willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Owners

The Board and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

- (1) To impose additional covenants or agreements to be observed by the Board;
- (2) To impose other limitations or restrictions upon the Board;
- (3) To surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;
- (4) To confirm, as further assurance, any pledge of or lien upon the Pledged State Aid Revenues, the Pledged Taxes or any other moneys, securities or funds;
- (5) To make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds as authorized in the Indenture;
- (6) To cure any ambiguity, omission or defect in the Indenture;
- (7) To provide for the appointment of a successor Securities Depository;
- (8) To provide for the appointment of any successor Fiduciary; and
- (9) To make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

Supplemental Indentures Effective Upon Consent of Owners

Any Supplemental Indenture not effective in accordance with the foregoing provisions shall take effect only if permitted and approved and in the manner described below under the heading “Amendments – *Consent of Owners.*”

Amendments

General

Exclusive of Supplemental Indentures as described above, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to (i) consent to and approve the execution by the Board and the Trustee of such other indenture or indentures supplemental to the Indenture as shall be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, or (ii) waive or consent to the taking by the Board of any action prohibited, or the omission by the Board of the taking of any action required, by any of the provisions of the Indenture or of any indenture supplemental thereto; provided, however, that nothing in the Indenture permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, without the consent of the Owner of such Bond, (b) except for the pledge of the Pledged State Aid Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to or on a parity with the lien of the Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, (c) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (e) the loss of the exclusion from federal gross income of the

Owners of the interest paid on the Bonds held by a non-consenting Owner to the extent otherwise afforded under the Code and Regulations.

Consent of Owners

The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to the Owners for their consent thereto in form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required aggregate principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) a notice shall have been delivered as described below. A certificate or certificates by the Trustee delivered to the Board that consents have been given by the Owners of the Bonds described in such certificate or certificates of the Trustee shall be conclusive. Any such consent shall be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor or replacement thereof whether or not such subsequent Owner has notice thereof, provided, however, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement hereafter described in this paragraph referred to is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The fact that a consent has not been revoked may be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with it. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by the Indenture and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient under the Indenture, the Trustee shall make and deliver to the Board a written statement that the consents of the Owners of the required aggregate principal amount of Outstanding Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. Any time thereafter notice, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required principal amount of Outstanding Bonds and will be effective as provided in this paragraph, shall be given by mailing to the Owners (but failure to mail such notice or any defect therein shall not prevent such Supplemental Indenture from becoming effective and binding). The Trustee shall deliver to the Board proof of the mailing of such notice. A record, consisting of the information required or permitted by this paragraph to be delivered by or to the Trustee, shall be proof of the matters therein stated.

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture shall take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice shall be required. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written consent thereto.

Defeasance

If the Board shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Bonds the principal or redemption price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board to the Owners shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Board for any year or part thereof requested, and shall execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent shall pay over or deliver to the Board all moneys and securities held by it pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all of the Outstanding Bonds of a particular maturity or portion of any maturity (which portion shall be selected by lot by the Trustee in the manner described in the body of this Official Statement under the heading “THE BONDS – Redemption – *Redemption Procedures*” for the selection of Bonds to be redeemed in part), the principal or redemption price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Board to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid as described in the preceding paragraph if the Board shall have delivered to or deposited with the Trustee (a) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (b) irrevocable instructions to mail the required notice of redemption of any Bonds so to be redeemed, (c) either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide moneys which shall be sufficient, without further reinvestment to pay when due the principal or redemption price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (d) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or redemption price, if applicable, of said Bonds. No payments of principal of any such Defeasance Obligations or interest thereon shall be withdrawn or used for any purpose other than the payment of such principal or redemption price of or interest on said Bonds, unless after such withdrawal the amount held by the Trustee and interest to accrue on Defeasance Obligations so held shall be sufficient to provide fully for the payment of the principal of or redemption price and interest on said Bonds, at maturity or upon redemption, as the case may be. In determining the sufficiency of the moneys and/or Defeasance Obligations deposited pursuant to subsection (c) of this paragraph, the Trustee shall be entitled to receive, at the expense of the Board, and may rely on a verification report and opinion of a firm of nationally recognized independent certified public accountants; *provided, however*, the Trustee shall not be entitled to receive such report and opinion if (i) all of the Bonds are to be redeemed or paid within the next succeeding 90 days or (ii) moneys are deposited in an amount sufficient without investment 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.

The Defeasance Obligations (or any portion thereof) held for the payment of the principal and redemption price of and interest on said Bonds as described in the preceding paragraph may not be sold, redeemed, invested, reinvested or removed from the lien of the Indenture in any manner or other Defeasance Obligations substituted therefor (any such direction to sell, redeem, invest, reinvest, remove or substitute to be

referred to as a “Subsequent Action”) unless prior to the taking of such Subsequent Action, the Trustee shall have received the following: (i) either (a) a certified copy of the proceedings of the Board authorizing the Subsequent Action, or (b) an Opinion of Counsel for the Board to the effect that such Subsequent Action has been duly authorized by all necessary action on the part of the Board; (ii) an opinion from a nationally recognized firm of independent public accountants to the effect that the Defeasance Obligations and cash available or to be available for payment of the Bonds after the taking of the Subsequent Action will remain sufficient to pay, without any further reinvestment thereof, the principal and redemption price of and interest on said Bonds, the Bonds at or prior to their maturity in the manner provided in the preceding paragraph; (iii) an Opinion of Bond Counsel to the effect that the Subsequent Action will not adversely affect any exemption from federal income tax of the interest paid on the Bonds to which such Bonds are otherwise entitled; and (iv) such other documents and showings as the Trustee may reasonably require.

APPENDIX D

Form of Opinion of Bond Counsel

May __, 2013

The Board of Education of the City of Chicago
Chicago, Illinois

Dear Members:

We have examined a record of proceedings relating to the issuance of \$122,605,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-1 (the "*Series 2013A-1 Bonds*"), \$124,320,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-2 (the "*Series 2013A-2 Bonds*") and \$157,055,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2013A-3 (the "*Series 2013A-3 Bonds*") and together with the Series 2013A-1 Bonds and the Series 2013A-2 Bonds, the "*Bonds*") of the Board of Education of the City of Chicago (the "*Board*"). The Bonds are authorized and issued pursuant to The School Code of the State of Illinois, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, Resolution No. 13-0403-RS1, adopted by the Board on April 3, 2013 (the "*Bond Resolution*"), and a Trust Indenture dated as of May 1, 2013 (the "*Indenture*") by and between the Board and The Bank of New York Mellon, N.A., as trustee (the "*Trustee*"). Terms used herein, which are defined in the Indenture, shall have the meanings set forth in the Indenture unless otherwise defined herein.

The Bonds are issued as "alternate bonds" under the Local Government Debt Reform Act for the purpose of refunding bonds of the Board that were issued for the purpose of refinancing other bonds of the Board that were originally issued to provide funds to construct, acquire and equip school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the "*School District*").

The Bonds are issuable only as registered bonds in the authorized denominations referred to in the Indenture. The Bonds delivered upon original issuance are dated as of this date. Each Sub-series of Bonds bear interest from their date at an Index Floating Rate as provided in the Indenture until and unless converted to a different Interest Mode as provided in the Indenture. The Series 2013A-1 Bonds mature on March 1, 2026, the Series 2013A-2 Bonds mature on March 1, 2035 and the Series 2013A-3 Bonds mature March 1, 2036. The Bonds are subject to optional and mandatory purchase and to optional and mandatory redemption prior to maturity at the times, in the manner and upon the terms set forth in the Indenture.

We are of the opinion that:

1. The Board had and has the right and power to adopt the Bond Resolution, to enter into the Indenture, and to authorize the Bonds. The Bond Resolution has been duly adopted, is presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

2. The Indenture has been duly authorized, executed and delivered by the Board, is presently in full force and effect, is valid and binding upon the Board and is enforceable in accordance with its terms as part of its contract with the owners of the Bonds.

3. The Bonds have been duly authorized and issued in accordance with the Bond Resolution and the Indenture, are valid and legally binding general obligations of the Board, are entitled to the benefits and security of the Bond Resolution and the Indenture and are enforceable in accordance with their terms.

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

5. The Indenture creates the valid pledge which it purports to create of the Trust Estate, consisting of the Pledged State Aid Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged State Aid Revenues consist of the State Aid Revenues received by the Board in any year pursuant to Article 18 of the School Code and such pledge is on a parity with the pledge of such State Aid Revenues as security for the payment of other alternate bonds of the Board secured by a pledge of such State Aid Revenues and issued or to be issued. The Pledged Taxes consist of ad valorem property taxes levied pursuant to the Bond Resolution. The Board has taken all necessary action to cause the County Collectors of the Counties of Cook and DuPage to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

6. Under existing law, interest on the Bonds is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "*Code*"), interest on the Bonds will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The Board has covenanted in the Indenture to comply with these requirements. Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the Bond Resolution and the Indenture (i) may be limited by any applicable bankruptcy, insolvency or other laws affecting the rights or remedies of creditors now or hereafter in effect and (ii) is subject to principles of equity in the event that equitable remedies are sought.

Very truly yours,

MMB/gw

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

