OFFICIAL STATEMENT DATED AUGUST 8, 2007

DAC Bond®

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

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

$204,635,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues)

$197,765,000
Series 2007B

$6,870,000
Series 2007C

Dated: Date of Issuance **Due: December 1, as set forth on the inside cover**

The Board of Education of the City of Chicago's Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007B (the "Series 2007B Bonds") and Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007C (the "Series 2007C Bonds", with the Series 2007B Bonds, the "Bonds") are fully registered bonds in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC"). DTC is the securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in Bonds purchased. Principal of and interest on the Bonds will be paid by Amalgamated Bank of Chicago, Chicago, Illinois, as trustee, bond 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 disbursal 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 are issuable in denominations of $5,000 and any integral multiples thereof.

The proceeds from the sale of the Series 2007B Bonds will be used (i) to refund certain of the Board's outstanding Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A, and (ii) to pay costs of issuance of the Series 2007B Bonds. The proceeds from the sale of the 2007C Bonds will be used (i) to refund certain of the Board's outstanding Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, and (ii) to pay costs of issuance of the Series 2007C Bonds. See "PLAN OF REFUNDING," "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS."

The Bonds will be general obligations of the Board to the payment of which the Board has pledged its full faith and credit. The Bonds will be payable from Pledged Revenues (defined herein), consisting of amounts paid to the Board by the City of Chicago (the "City") pursuant to an Intergovernmental Agreement between the City and the Board (the "Intergovernmental Agreement Revenues") and the Pledged Personal Property Replacement Tax ("PPRT") Revenues (the "Pledged PPRT Revenues" with the Intergovernmental Agreement Revenues, the "Pledged Revenues"), all as more fully described herein. To the extent that the Pledged 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 "Pledged Taxes"), the boundaries of which are coterminous with the boundaries of the City. The Bonds are also payable from all Funds, Accounts and Sub-Accounts (as defined in Appendix B hereto) established pursuant to the Indenture as security for the Bonds. See "SECURITY FOR THE BONDS."

Interest on Bonds will be payable on each June 1 and December 1, commencing December 1, 2007. Payment of the principal and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Bonds. See "BOND INSURANCE."

Ambac

The Bonds will be subject to optional and mandatory sinking fund redemption prior to maturity, as more fully described in this Official Statement.

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

Goldman, Sachs & Co.

Popular Securities **UBS Investment Bank**

Mesirow Financial, Inc. **Podesta & Co.**

Rice Financial Products Company **Siebert Brandford Shank & Co., LLC**

$197,765,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues), Series 2007B

MATURITY SCHEDULE

Maturity (December 1)	Amount	Interest Rate	Yield	Price	CUSIP[1]
2017	$15,265,000	5.000%	4.130%	107.198	167505AA4
2018	16,035,000	5.000	4.230	106.824	167505AB2
2019	16,835,000	5.000	4.320	105.572[+]	167505AC0
2020	25,155,000	5.000	4.360	105.233[+]	167505AD8
2021	26,410,000	5.000	4.390	104.980[+]	167505AE6
2022	27,735,000	5.000	4.410	104.812[+]	167505AF3
2023	34,310,000	5.000	4.430	104.644[+]	167505AG1
2024	36,020,000	5.000	4.450	104.476[+]	167505AH9

$6,870,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues), Series 2007C

MATURITY SCHEDULE

Maturity (December 1)	Amount	Interest Rate	Yield	Price	CUSIP[1]
2008	$295,000	4.000%	3.740%	100.307	167505AJ5
2009	305,000	4.000	3.760	100.506	167505AK2
2010	320,000	4.000	3.790	100.629	167505AL0
2011	330,000	4.000	3.830	100.654	167505AM8
2012	345,000	4.000	3.890	100.512	167505AN6
2013	360,000	4.000	3.940	100.324	167505AP1
2014	375,000	4.000	3.990	100.057	167505AQ9
2015	390,000	5.000	4.040	106.664	167505AR7
2016	410,000	5.000	4.100	106.857	167505AS5
2017	405,000	4.125	4.200	99.375	167505AT3
2018	415,000	4.125	4.300	98.447	167505AU0
2019	435,000	4.250	4.400	98.586	167505AV8
2020	455,000	4.250	4.450	98.009	167505AW6
2021	475,000	4.375	4.500	98.690	167505AX4

$1,555,000 4.500% Term Bonds due December 1, 2024; Yield 4.650%; Price 98.228; CUSIP 167505AY2.

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

[+] Priced to the optional redemption date of December 1, 2017.

REGARDING USE OF THIS OFFICIAL STATEMENT

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

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

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

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

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

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

Other than with respect to information concerning Ambac Assurance Corporation (the "Bond Insurer") contained under the caption "BOND INSURANCE" and APPENDIX E – "Specimen Financial Guaranty Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

BOARD OF EDUCATION OF

THE CITY OF CHICAGO

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Clare Muñana
Vice President

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Dr. Tariq Butt
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Chief Executive Officer

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Chief Education Officer

M. Hill Hammock
Chief Administrative Officer
Chief Operating Officer

Pedro Martinez
Chief Financial Officer

Heather A. Obora
Chief Purchasing Officer

Patrick J. Rocks
General Counsel

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

A.C. Advisory, Inc.
Financial Advisor

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$204,635,000
BOARD OF EDUCATION OF
THE CITY OF CHICAGO
Unlimited Tax General Obligation Refunding Bonds
(Dedicated Revenues)

$197,765,000
Series 2007B

$6,870,000
Series 2007C

INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the "Board") of its $197,765,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007B (the "Series 2007B Bonds") and its $6,870,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007C (the "Series 2007C Bonds" with the Series 2007B Bonds, the "Bonds"). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings assigned thereto in APPENDIX B – "Summary of Certain Terms of the Indenture."

The proceeds from the sale of the Series 2007B Bonds will be used to (i) refund a portion of the outstanding principal amount of the Board's Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A (the "Series 1997A Refunded Bonds") maturing in the years as shown on APPENDIX F and (ii) pay costs of issuance of the Series 2007B Bonds. The proceeds from the sale of the Series 2007C Bonds will be used to (i) refund a portion of the outstanding principal amount of the Board's Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997 (the "Series 1997 Refunded Bonds" with the Series 1997A Refunded Bonds, the "Refunded Bonds") at maturity as shown on APPENDIX F and (ii) pay costs of issuance of the Series 2007C Bonds. See "PLAN OF REFUNDING", "PLAN OF FINANCE" and "SOURCES AND USES OF PROCEEDS" herein.

The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit. The Series 2007B Bonds will be issued by the Board pursuant to (i) the provisions of the School Code of the State of Illinois, as amended (the "School Code"), (ii) the Local Government Debt Reform Act of the State of Illinois, as amended (the "Debt Reform Act"), which provides that alternate bonds, being general obligation bonds payable from any revenue source as provided by the Debt Reform Act ("Alternate Bonds"), may, upon meeting certain requirements of the Debt Reform Act, be issued to refund previously issued Alternate Bonds and (iii) Resolution No. 07-0725-RS4 in respect of the Bonds, adopted by the Board on July 25, 2007 (the "Bond Resolution"). The Series 2007C Bonds will be issued by the Board pursuant to (i) the provisions of the School Code, (ii) the Debt Reform Act, (iii) a resolution adopted by the Board on June 28, 2006 (the "2006 Authorization") authorizing the issuance of Alternate Bonds in an aggregate principal amount not to exceed $750,000,000 and (iv) the Bond Resolution.

The Bonds will be issued under a Trust Indenture, dated as of September 1, 2007 (the "Indenture"), by and between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee and paying agent (the "Trustee" or "Paying Agent"). The Bonds will be secured by and are payable (i) from the Pledged Revenues (as defined herein), (ii) to the extent that the Pledged Revenues are insufficient to pay the debt service on the Bonds, 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 established pursuant to the Indenture other than Escrow Funds.

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

The Bonds will bear interest from the date of original issuance thereof, payable on June 1 and December 1 (each such date, an "Interest Payment Date"), commencing December 1, 2007, at the rates set forth on the inside cover hereof.

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

The Board will issue its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A in the principal amount of $262,785,000 (the "Series 2007A Bonds") contemporaneously with the Bonds. The Series 2007A Bonds will be issued initially as auction rate securities. The Series 2007A Bonds are also being issued to refund certain of the Board's outstanding Series 1997A Bonds. The Series 2007A Bonds will be described in a separate official statement of the Board available upon request from the office of the Board's Treasurer.

Prior Alternate Bonds

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

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

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

Additional Bonds Payable from Pledged Revenues. The Board may issue Additional Bonds from time to time from all or any portion of the Pledged Revenues or any other source of payment which may be pledged under the Debt Reform Act; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. Subject only to compliance with such provisions of the Debt Reform Act, there is no limit on the aggregate principal amount of Additional Bonds which may be issued by the Board.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from the Pledged PPRT Revenues and/or from the Intergovernmental Agreement Revenues which are subordinate to the Bonds. Such subordinate obligations will be paid from the Pledged Revenues available to the Board in each year in excess of those required to be deposited in the Funds and Accounts established under the Indenture.

PLAN OF REFUNDING

Series 1997A Bonds

The Series 2007B Bonds are being issued by the Board to provide funds which will be sufficient (i) to refund the Series 1997A Refunded Bonds and (ii) to pay costs related to the issuance of the Series 2007B Bonds, as more fully described herein. The Board has determined to refund $199,225,000 in outstanding principal amount of the Series 1997A Bonds and to redeem the Series 1997A Refunded Bonds on December 1, 2007 at the applicable redemption price of 102% of the principal amount thereof.

Series 1997 Bonds

The Series 2007C Bonds are being issued by the Board to provide funds which will be sufficient (i) to refund the Series 1997 Refunded Bonds at maturity and (ii) to pay costs related to the issuance of the Series 2007C Bonds, as more fully described herein. The Board has determined to refund a portion in the principal amount of $6,700,000 of the outstanding Series 1997 Bonds which will mature on December 1, 2007.

PLAN OF FINANCE

General

Proceeds of the Bonds will be used to refund the Refunded Bonds. The table attached to this Official Statement as APPENDIX F – "General Obligation Bonds to be Refunded by the Bonds" sets forth the series designation, original CUSIP, maturity date, interest rate, principal amount, redemption date and price for each of the Refunded Bonds. Proceeds of the Bonds will also be used for payment of certain costs of issuance of the Bonds.

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

The Government Obligations will be held in a separate escrow account (the "Series 1997A Refunding Escrow Account"), for the Series 1997A Refunded Bonds dated as of September 1, 2007 (the "Series 1997A Refunding Escrow Agreement"), and by and between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as escrow agent, with respect to the Series 1997A Refunded Bonds. Funds held in the Series 1997A Refunding Escrow Account will not serve as security or be available for payment of principal of or interest on the Bonds. The

Series 1997A Refunded Bonds will be legally defeased in accordance with the applicable provisions of the indenture under which the Series 1997A Refunded Bonds were originally issued and will no longer have any lien or claim on revenues pledged for their payment.

The Government Obligations will be held in a separate escrow account (the "Series 1997 Refunding Escrow Account" with the Series 1997A Refunding Escrow Account, the "Refunding Escrow Accounts"), for the Series 1997 Refunded Bonds dated as of September 1, 2007 (the "Series 1997 Refunding Escrow Agreement"), and by and between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as escrow agent, with respect to the Series 1997 Refunded Bonds. Funds held in the Series 1997 Refunding Escrow Account will not serve as security or be available for payment of principal of or interest on the Bonds. The Series 1997 Refunded Bonds will be legally defeased in accordance with the applicable provisions of the indenture under which the Series 1997 Refunded Bonds were originally issued and will no longer have any lien or claim on revenues pledged for their payment.

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

The Series 2007A Bonds

The Board will issue its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A in the principal amount of $262,785,000 contemporaneously with the Bonds. The Series 2007A Bonds will be issued initially as auction rate securities. The Series 2007A Bonds are also being issued to refund certain of the Board's outstanding general obligation bonds. The Series 2007A Bonds will be described in a separate official statement of the Board available upon request from the office of the Board's Treasurer.

SOURCES AND USES OF PROCEEDS

The estimated sources and uses of proceeds of each series of the Bonds are summarized below.

	Series 2007B Bonds	Series 2007C Bonds
SOURCES OF FUNDS		
Bond Proceeds:		
Par Amount	$197,765,000.00	$6,870,000.00
Premium	10,302,848.25	5,906.55
TOTAL	$208,067,848.25	$6,875,906.55
USES OF FUNDS		
Deposit into Refunding Escrow Accounts	$205,966,394.05	$6,827,042.79
Costs of Issuance (including Underwriters' Discount and Premium for Bond Insurance Policy)	2,101,454.20	48,863.76
TOTAL	$208,067,848.25	$6,875,906.55

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 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 will be dated the date of original issuance thereof and will mature on December 1 of the years and in the amounts shown on the inside cover page hereof. The Bonds will be issued only as fully registered bonds in denominations of $5,000 or integral multiples thereof. The Bonds will bear interest from the date of original issuance thereof, payable on June 1 and December 1 of each year, commencing December 1, 2007, at the rates set forth on the inside cover page hereof. Each Bond will bear interest from the later of its date or from the most

recent interest payment date to which interest has been paid or duly provided for, until the principal amount of such Bond is paid or duly provided for. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on each Bond will be payable on each Interest Payment Date to the person in whose name the Bond is registered at the close of business on the fifteenth day of the calendar month next preceding each Interest Payment Date. See APPENDIX B – "Summary of Certain Provisions of the Indenture."

Redemption

Optional Redemption. The Series 2007B Bonds maturing on or after December 1, 2019, are subject to redemption prior to maturity at the option of the Board, as a whole or in part, on any date on or after December 1, 2017, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption.

The Series 2007C Bonds maturing on or after December 1, 2018, are subject to redemption prior to maturity at the option of the Board, as a whole or in part, on any date on or after December 1, 2017, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Series 2007C Bonds maturing on December 1, 2024 are subject to mandatory redemption prior to their maturity, in part, at a redemption price equal to the principal amount thereof, plus accrued interest, by application by the Trustee in accordance with the Trust Indenture of funds on deposit to the credit of the Principal Sub-Account. Deposits shall be made into the Principal Sub-Account in amounts which will make possible the retirement by redemption of Bonds of each such series and maturity on December 1 of the years and in the aggregate principal amounts set forth in the following table (each constituting a sinking fund installment), as adjusted pursuant to the below paragraph:

Series 2007C Bonds Due December 1, 2024

Year	Principal Amount
2022	$495,000
2023	520,000
2024 (Maturity)	540,000

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

delivered or previously redeemed shall be credited against future mandatory sinking fund redemption obligations on Bonds of such series and maturity in such order as the Board shall designate, or if no such designation is made, in chronological order, the principal amount of such Bonds to be redeemed by operation of such mandatory redemption to be accordingly reduced.

Redemption Procedures. In the case of any redemption of Bonds at the option of the Board, the Board shall give written notice to the Trustee of its election or direction to so redeem, as of the date fixed for redemption, and of the principal amounts of the Bonds of each series and maturity to be redeemed. Such notice shall be given at least 60 days prior to the specified redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in the Indenture, (i) there shall be paid on or prior to the specified redemption date to the Trustee an amount in cash and/or Government Obligations maturing on or before the specified redemption date which, together with other moneys, if any, available therefor held by the Trustee, will be sufficient to redeem all of the Bonds to be redeemed on the specified redemption date at their redemption price plus interest accrued and unpaid to the date fixed for redemption; such amount and moneys shall be held in a separate, segregated account for the benefit of the Owners of the Bonds so called for redemption, or (ii) such redemption notice given under the Indenture may state that any redemption is conditional on such funds being deposited on the redemption date, and that failure to deposit such funds shall not constitute an Event of Default under the Indenture.

If less than all of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided that (i) the portion of any such Bond of a denomination of more than $5,000 to be redeemed will be in a principal amount of an Authorized Denomination and (ii) in selecting portions of such Bonds for redemption, the Trustee will treat each such Bond as representing that number of Bonds of $5,000 denomination that is obtained by dividing the principal amount of such Bond to be redeemed in part by $5,000. If all Bonds are held in book-entry only form, the particular Bonds or portions thereof to be redeemed will be selected by the securities depository in such manner as the securities depository may determine.

When the Trustee receives notice from the Board of its election or direction to optionally redeem Bonds and when Trustee is required to redeem the Bonds pursuant to mandatory sinking fund redemption, the Trustee will give notice, in the name of the Board, of the redemption of such Bonds, which notice will specify the series and maturities of the Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the Bonds of any like series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice will also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state whether the redemption is conditioned upon sufficient moneys being available on the redemption date, or any other conditions. Such notice will further state that on such date there will become due and payable the redemption price of each Bond to be redeemed, or the redemption price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon will cease to accrue and be payable. The Trustee will

mail copies of such notice by first-class mail, postage prepaid, not less than 30 days and not more than 60 days before the date fixed for redemption, to the Owners of the Bonds to be redeemed at their addresses as shown on the registration books of the Board maintained by the Bond Registrar; provided that if all Bonds are held in book-entry only form, such notice may be given pursuant to the then-existing agreement with the securities depository for the Bonds. The failure of the Trustee to give notice to an Owner of any Bond or any defect in such notice will not affect the validity of the redemption of any other Bonds as to which proper notice was given.

Notice having been given in the manner described above, the Bonds or portions thereof so called for redemption shall become due and payable on the date fixed for redemption at the redemption price therein specified (plus interest accrued and unpaid to such date) and, upon presentation and surrender thereof at the place specified in such notice, such Bonds, or portions thereof, shall be paid at the redemption price (plus interest accrued and unpaid to such date). If there shall be called for redemption less than all of a Bond, the Board shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of a Bond so surrendered, fully registered Bonds of like series and maturity in any Authorized Denominations; provided, that such exchange need not be made with respect to any Bonds in book-entry only form held by the Trustee pursuant to an agreement with the securities depository for the Bonds. If, on the date fixed for redemption, moneys for the redemption of all the Bonds or portions thereof to be redeemed (together with interest to such date) shall be held by the Trustee so as to be available therefor on said date and if notice of redemption has been given as described aforesaid, then, from and after the date fixed for redemption, interest on such Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If said moneys are not so available on the date fixed for redemption, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as if they had not been called for redemption.

Bond Registration and Transfers

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

Book-Entry Only System

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

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

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

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

Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

authorized representative of DTC) 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the Board and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

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.

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

SECURITY FOR THE BONDS

General

The Series 2007B Bonds will be issued pursuant to the School Code, the Debt Reform Act, the Bond Resolution and the Indenture. The Series 2007C Bonds will be issued pursuant to the School Code, the Debt Reform Act, the Bond Resolution, the Indenture and the 2006 Authorization. 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) an amount that, in each year that the Bonds are outstanding, shall provide for the payment of annual debt service on the Bonds (the "Pledged Revenues"), consisting of (a) the Personal Property Replacement Tax Revenues allocated and paid to the Board from the Personal Property Tax Replacement Fund of the State pursuant to Section 12 of the State Revenue Sharing Act, as amended, or from such successor or replacement fund or act as may be enacted in the future, that are received or to be

received by the Board in any year and remaining after any required allocation thereof to provide for the payment of the Statutory Claims and subject to the prior lien of the Series 1996 Bonds and the Series 1997 Bonds as shall provide for debt service on the Bonds in each year as set forth in the Indenture, the "Pledged PPRT Revenues", and (b) the Intergovernmental Agreement 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 Funds, Accounts and Sub-Accounts established pursuant to the Indenture, other than funds held pursuant to the Refunding Escrow Agreements, and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee, by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. The Pledged Revenues will provide in each year an amount not less than 1.25 times debt service on the Bonds. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged Revenues for the Bonds are not available in sufficient amounts to pay the debt service on the Bonds.

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

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

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

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

Intergovernmental Agreement Revenues

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

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

The annual amount of the taxes levied by the City to provide the Intergovernmental Agreement Revenues have been determined so as to cause the aggregate of (i) such taxes and (ii) the taxes currently levied for debt service by the Chicago School Finance Authority (the "Authority") and certain taxes currently levied by the Board for the payment of its lease obligations with the Public Building Commission of Chicago to approximate the maximum amount of the taxes annually levied as described in clause (ii). Consequently, the levy of taxes to provide the Intergovernmental Agreement Revenues is therefore not expected to result in any increase in the aggregate of the taxes currently levied to pay debt service on obligations issued by or for the benefit of the Board. For additional information, see "OTHER LOCAL GOVERNMENT UNITS – Chicago School Finance Authority" and "OTHER LOCAL GOVERNMENTAL UNITS – Other Public Bodies – Public Building Commission."

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

Collection and Application of Intergovernmental Agreement Revenues. Pursuant to the Intergovernmental Agreement, the City will file a written direction (the "Direction") with the County Collectors of Cook and DuPage Counties (the "County Collectors"), specifying the amount of Intergovernmental Agreement Revenues which are to be collected annually and directing the County Collectors to deposit all collections of the Intergovernmental Agreement Revenues directly with the Escrow Agent. In the event that, for any reason, any Intergovernmental Agreement Revenues are paid by the County Collectors directly to the City

and are not deposited with the Escrow Agent, such amounts shall be promptly deposited by the City with the Escrow Agent.

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

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

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

Personal Property Replacement Taxes

Purpose/History. Article 9, Section 5 of the Illinois Constitution of 1970 abolished all *ad valorem* taxes on personal property effective January 1, 1979. Article 9, Section 5 of the Illinois Constitution of 1970 also required that the Illinois General Assembly establish a tax (or taxes) on businesses to replace the revenue lost by units of local government as a result of the abolition of the personal property tax. Pursuant to state constitutional mandate, this lost revenue was to be replaced by statewide taxes, other than *ad valorem* taxes on real estate, solely on those classes relieved of the burden of paying *ad valorem* personal property taxes. To implement this state constitution mandate, the General Assembly imposed the "Replacement Taxes," described in more detail below in APPENDIX C – "Information Concerning Personal Property Replacement Tax Revenues." These taxes became effective on July 1, 1979.

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

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

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

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

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

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

"- Replacement Tax Statistical Tables" under APPENDIX C – "Information Concerning Personal Property Replacement Tax Revenues."

Pledged Taxes

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

Application of Pledged Revenues; Abatement of Pledged Taxes

Deposit of the Pledged Revenues. The Escrow Agreement establishes the Pledged Revenues Escrow Account into which deposits of the Pledged Revenues will be made. The Escrow Agreement also establishes the Personal Property Replacement Tax Revenues Sub-Account and the Intergovernmental Agreement Revenues Sub-Account within the Pledged Revenues Escrow Account. The Personal Property Replacement Tax Revenue Sub-Account further consists of (i) the Senior Bonds Sub-Account and the (ii) Subordinate Bonds Sub-Account.

As described above under "SECURITY FOR THE BONDS – General," the Bonds are secured by a pledge of and lien on the Pledged Revenues; provided that the pledge of and lien on the Pledged PPRT Revenues is subject to the prior lien of the Outstanding Senior Bonds and further provided that the Board may and has issued additional Outstanding Parity Bonds, which share ratably and equally with the Bonds in the pledge of and lien on all of the Pledged Revenues (subordinate to the Outstanding Senior Bonds).

The Board agrees to deliver to the Escrow Agent a schedule (the "Schedule") setting forth the amounts of the Pledged Revenues to be segregated and paid in each calendar year (a "Year") for the payment of the debt service on the Outstanding Senior Bonds, the Bonds and the Outstanding Parity Bonds. The amount of Pledged PPRT Revenues to be segregated by the Escrow Agent and paid to the trustees for the Bonds, the Outstanding Senior Bonds and any Outstanding Parity Bonds in each Year shall be an amount sufficient to pay all debt service due

on the Outstanding Senior Bonds and all debt service scheduled to be paid from Pledged PPRT Revenues on the Bonds and any Outstanding Parity Bonds during the twelve-month period (a "Payment Year") beginning on the April 1 following the end of such Year; subject however, to the prior lien of the Outstanding Senior Bonds on the Pledged PPRT Revenues, as described herein. The amount of Intergovernmental Agreement Revenues to be paid by the Escrow Agent to the Trustee and the trustee for each series of Outstanding Parity Bonds in each Year shall be an amount sufficient to pay the debt service scheduled to be paid from Intergovernmental Agreement Revenues due on the Bonds and any Outstanding Parity Bonds during the Payment Year beginning on April 1 of such Year.

Pursuant to irrevocable direction of the City, in accordance with the Intergovernmental Agreement, each County Collector is required to deposit all collections of the Intergovernmental Agreement Revenues as received directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. All Intergovernmental Agreement Revenues collected by the Escrow Agent in each Year shall be deposited immediately into the Intergovernmental Agreement Revenues Sub-Account.

Pursuant to the irrevocable direction of the Board, the Department of Revenue deposits with the Escrow Agent all Personal Property Replacement Tax Revenues allocated for payment to the Board for application in accordance with the provisions of the Escrow Agreement. Prior to the first day of each Year, the Board is required, pursuant to the terms of the Escrow Agreement, to notify the Escrow Agent by written direction of the amount of the Personal Property Replacement Tax Revenues to be collected in such Year necessary to be applied to the payment of the Statutory Claims, if any, in such Year. As the Escrow Agent collects the Personal Property Replacement Tax Revenues paid to the Board for such Year, the first dollars collected, up to the amount set forth in the written direction of the Board as necessary for payment of the Statutory Claims, will be remitted to the Board for such purpose. Pledged PPRT Revenues shall consist of all Personal Property Replacement Tax Revenues collected by the Escrow Agent in each Year, remaining after the distribution to the Board for the payment of any Statutory Claims. Personal Property Replacement Tax Revenues shall be deposited immediately: (i) first, into the Senior Bonds Sub-Account until an amount sufficient to pay the debt service due on the Outstanding Senior Bonds during the Payment Year beginning on the April 1 following the end of such Year has been deposited therein; and (ii) second, into the Subordinate Bonds Sub-Account until an amount sufficient to pay the debt service (or applicable Swap Payments) due on the Bonds and any Outstanding Parity Bonds scheduled to be paid from the Personal Property Replacement Tax Revenues during the Payment Year beginning on the April 1 following the end of such Year has been deposited therein.

Application of Pledged Revenues by Escrow Agent. As soon as practicable after the collection by the Escrow Agent of each distribution of Personal Property Replacement Tax Revenues in any Year, but not later than two (2) business days following the date of collection, the Escrow Agent shall: (i) distribute to the trustees for the Outstanding Senior Bonds the amount deposited in the Senior Bonds Sub-Account; and (ii) distribute to the Trustee and the trustees for any Outstanding Parity Bonds a pro rata amount of the amount deposited into the Subordinate Bonds Sub-Account. The distributions from the Subordinate Bonds Sub-Account shall be calculated by multiplying, in each case, the total amount of the distribution of Pledged PPRT Revenues available to be paid to the Trustee and the trustees for any Outstanding Parity

Bonds by a fraction, the numerator of which is the debt service (or applicable Swap Payments) scheduled to be paid on the Bonds and any Outstanding Parity Bonds from Personal Property Replacement Tax Revenues during the Payment Year beginning on the April 1 following the end of such Year and the denominator of which is the total amount of debt service (or applicable Swap Payments) scheduled to be paid from Personal Property Replacement Tax Revenues on the Bonds and the Outstanding Parity Bonds during such Payment Year. Once the segregations, payments and deposits of Pledged PPRT Revenues described above have been made in each Year in amounts sufficient to satisfy the Schedule provided by the Board, the Escrow Agent shall: (i) give written notice to each trustee that segregations, payments and deposits of Personal Property Replacement Tax Revenues for the then-current Year are complete and will cease; and (ii) forward all Personal Property Replacement Tax Revenues collected thereafter during the then-current Year to the Board immediately upon receipt thereof.

As soon as practicable after the collection by the Escrow Agent of each distribution of Intergovernmental Agreement Revenues in any Year, but not later than two (2) business days following the date of collection, the Escrow Agent shall distribute to the Trustee and trustees for any Outstanding Parity Bonds a pro rata amount of such distribution, calculated by multiplying, in each case, the total amount of such distribution by a fraction, the numerator of which is the debt service (or applicable Swap Payments) scheduled to be paid on the Bonds and any Outstanding Parity Bonds from Intergovernmental Agreement Revenues during the Payment Year beginning on the April 1 of such Year and the denominator of which is the total amount of debt service (or applicable Swap Payments) scheduled to be paid from Intergovernmental Agreement Revenues on all of the Bonds and the Outstanding Parity Bonds during such Payment Year. Such distributions of Intergovernmental Agreement Revenues shall continue even after payments and deposits have been made in each Year in amounts sufficient to satisfy the Schedule provided by the Board.

Each distribution by the Escrow Agent to the Trustee and the trustees for the Outstanding Senior Bonds and any Outstanding Parity Bonds shall be accompanied by a statement specifying the amount of funds distributed from Personal Property Replacement Tax Revenues with respect to the Outstanding Senior Bonds and from Personal Property Replacement Tax Revenues and Intergovernmental Agreement Revenues with respect to the Bonds and any Outstanding Parity Bonds.

Payment of Debt Service on the Bonds. The Indenture establishes the Debt Service Fund (as defined herein) as a separate fund pledged to the payment of debt service on the Bonds. The Indenture also establishes four separate accounts in the Debt Service Fund, known as the "Pledged Revenues Account," the "Pledged Taxes Account," the "Bond Payment Account" and the "Swap Payment Account." The Pledged Revenues Account consists of the Deposit Sub-Account and the Payment Sub-Account. The Payment Sub-Account further consists of (i) the Interest Sub-Account, (ii) the Pledged PPRT Revenues Sub-Account and (iii) the Intergovernmental Agreement Revenues Sub-Account. The Bond Payment Account consists of the Interest Sub-Account and Principal Sub-Account.

The Trustee shall deposit to the credit of the Interest Deposit Sub-Account (i) any amounts paid by the Board to the Trustee from time to time with instructions for deposit into such Sub-Account, and (ii) any payments made by the Swap Providers under the Swap

Agreements to the extent set forth in a certificate of a Designated Official filed with the Trustee. All or a portion of such amounts so deposited to the credit of the Interest Deposit Sub-Account shall be transferred no later than the next succeeding date upon which interest on the Bonds is due (an "Interest Payment Date") to the Interest Sub-Account in the Bond Payment Account and applied to pay up to the amount of interest then due on the Bonds on such Interest Payment Date as described below under "Payment of Debt Service on the Bonds and Swap Payments."

Pursuant to the Indenture, the Pledged Revenues received by the Trustee from the Escrow Agent shall be applied to the payment of debt service on the Bonds in accordance with the following procedures.

All Intergovernmental Agreement Revenues shall be deposited promptly upon receipt in the Intergovernmental Agreement Revenues Sub-Account. All Pledged PPRT Revenues shall be deposited promptly upon receipt in any Year into the Deposit Sub-Account, until there shall be on deposit an amount sufficient to pay debt service on the Bonds scheduled to be paid from Pledged PPRT Revenues during the twelve-month period beginning on December 2 (a "Bond Year") of such Year. Promptly after there shall have been deposited to the credit of the Deposit Sub-Account in any Year an amount sufficient to satisfy the requirement set forth in the preceding sentence the Trustee shall: (i) notify the Board of that fact and the Board shall take such actions as are necessary to abate the Pledged Taxes levied for the then-current Year in full and; (ii) not earlier than December 3 of the then-current Year nor later than the last Business Day of the then-current Year, transfer all amounts on deposit in the Deposit Sub-Account into the Pledged PPRT Revenues Sub-Account of the Payment Sub-Account.

In the event that as of the last Business Day of any Year there has been deposited to the credit of the Deposit Sub-Account an insufficient amount to satisfy the requirement set forth in the preceding paragraph, the Trustee shall: (i) notify the Board of that fact and the amount of the shortfall and the Board shall take such actions as are necessary to cause the extension of the Pledged Taxes levied for such Year in an amount sufficient, when added to the amount then on deposit in the Deposit Sub-Account, to provide for the payment of the interest on and principal of the Bonds during the Bond Year beginning on December 2 of the then-current Year and scheduled to be paid from Pledged PPRT Revenues; and (ii) on such last Business Day of such Year, transfer all amounts on deposit in the Deposit Sub-Account into the Pledged PPRT Revenues Sub-Account.

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

(A) the principal amount of the outstanding Bonds, if any, which mature on that December 1 and (B) the amount required for the payment of the Redemption Price of Outstanding Bonds, if any, required to be redeemed on the next December 1 by the application of sinking fund installments pursuant to the Indenture.

Pledged Revenues Not Needed to Pay Debt Service. All amounts on deposit in the Pledged PPRT Revenues Sub-Account of the Payment Sub-Account on December 2 of each Year 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 PPRT Revenues Sub-Account as described under "Payment of Debt Service on the Bonds."

All amounts on deposit in the Intergovernmental Agreement Revenues Sub-Account of the Payment Sub-Account on December 2 of each Year shall be withdrawn from such Sub-Account and paid to the Board free and clear of the lien of the Indenture.

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

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Bonds, and may not be applied to the payment of the bonds of any other series. See APPENDIX B – "Summary of Certain Provisions of the Indenture."

Rights of the Bond Insurer

So long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the sole owner of the Bonds insured under the Bond Insurance Policy for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture.

BOND INSURANCE

Upon the issuance of the Bonds, the Bond Insurer will issue a financial guaranty insurance policy for the Bonds that will guarantee the payment of scheduled principal of and interest on the Bonds (referred to herein as the "Insured Bonds"). The following information has been supplied by the Bond Insurer for inclusion in this Official Statement. No representation is made by the Board or the Underwriters as to the accuracy or completeness of the information.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac

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

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

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

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

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

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name

of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

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

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $10,194,000,000 (unaudited) and statutory capital of approximately $6,557,000,000 (unaudited) as of March 31, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

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

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

Available Information

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

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

Incorporation of Certain Documents by Reference

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;

2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;

4. The Company's Current Report on Form 8-K dated and filed on July 25, 2007; and

5. The Company's Current Report on Form 8-K dated and filed on August 3, 2007.

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

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

District until June 30, 1999. On July 1, 1999, by operation of the 1995 Amendatory Act, the Reform Board of Trustees became the Board. The members of the Board were appointed by the Mayor of the City (the "Mayor") and are listed below. The appointments to the Board did not require approval of the City Council.

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

Rufus Williams is President of the Board and also President and Chief Executive Officer of Olympus, LLC, a business management and contract negotiation firm. Prior to founding Olympus, LLC, Mr. Williams worked for 10 years in various positions including Chief Financial Officer and Controller at Harpo Entertainment Group, best known for producing "The Oprah Winfrey Show." Mr. Williams began his career at Arthur Andersen & Co., where he rose to the level of Experienced Audit Manager. Mr. Williams left after 10 years to take a position as Corporate Audit Manager at Baxter Healthcare Corporation. Mr. Williams is past President of the Better Boys Foundation, a social service agency that provides assistance to children and their families, and past Treasurer of the Board of Trustees of Francis W. Parker School, where he is now an Honorary Trustee. Mr. Williams graduated Magna Cum Laude from Southern University of Baton Rouge, Louisiana with a degree in Accounting.

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

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

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

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

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

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

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

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

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

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

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

Central Administration

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

Chief Executive Officer	Arne Duncan
Chief Education Officer	Barbara Eason-Watkins
Chief Administrative Officer	M. Hill Hammock
Chief Operating Officer	M. Hill Hammock
Chief Financial Officer	Pedro Martinez
Chief Purchasing Officer	Heather A. Obora
General Counsel	Patrick J. Rocks

Arne Duncan is the Chief Executive Officer of the Board. Mr. Duncan was formerly Deputy Chief of Staff for the previous Chief Executive Officer of the Board and, prior to that, directed the Ariel Education Initiative. He received a Bachelor of Arts degree in Sociology from Harvard University. Mr. Duncan serves on the boards of directors for the Ariel Education Initiative, The Children's Center, City Year, the Illinois Council Against Handgun Violence and the South Side YMCA, and serves on the Visiting Committee for the University of Chicago's School of Social Service Administration.

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

supervision from Chicago State University, and a Doctorate in education, with a specialty in curriculum and instruction, from Loyola University, Chicago.

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

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

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

Patrick J. Rocks is the General Counsel of the Board. He has served in that office since March 1, 2005. Prior to his current appointment, Mr. Rocks served in various offices in the Office of the Corporation Counsel of the City of Chicago from 1987 to 2005. From November 2002 to February 2005, he served as First Assistant Corporation Counsel. From May 1998 to November 2002, he served as Deputy Corporation Counsel for the Employment Litigation Division. From December 1993 to May 1998, he served as Chief Assistant Corporation Counsel in the Labor Division. From July 1987 to December 1993, he served as an Assistant Corporation Counsel in the General Litigation and Labor Divisions. Prior to his service with the City of Chicago, Mr. Rocks served as a judicial clerk and was engaged in private practice. Mr. Rocks received his law degree from the John Marshall Law School in 1985 and his Bachelor's degree from Loyola University of Chicago in 1980.

School System

The Chicago Public School system consists of 625 attendance centers consisting of 484 elementary schools, 119 high schools and 22 charter schools serving 420,982 children.

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

School Year	Elementary School	High School	Combined
2005/2006	308,993	111,989	420,982
2004/2005	320,719	106,093	426,812
2003/2004	330,196	104,223	434,419
2002/2003	337,525	101,064	438,589

Capital Improvement Program

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

1. New construction, including new schools, additions, annexes and modular units;

2. Building renovation, including new windows, new roofs, masonry, science labs, gymnasiums, Americans with Disabilities Act improvements, energy efficiencies and information technology, including wiring and equipment to connect all Chicago Public Schools facilities to an area wide network; and

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

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

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

The Board uses third-party firms to provide program management services for the Capital Improvement Program to ensure appropriate oversight and cost control. In September 1998, the

Board engaged Chicago School Associates, a joint venture of design, engineering, and construction firms, as program manager.

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

To finance the Capital Improvement Program, the Board has issued approximately $3.9 billion aggregate principal amount of Alternate Bonds (excluding refunding bonds). As of June 30, 2007, approximately $3.8 billion of the proceeds of such Bonds have been spent, and substantially all of the net proceeds remaining have been "encumbered" (i.e., obligated for future expenditure on identified projects).

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

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

Educational Reform Initiatives

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

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

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

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

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

Educational Results. There continue to be many positive educational trends at CPS. The 2007 results from the Illinois Standards Achievement Test show that 60.9% of students are meeting or exceeding state standards in reading, while 68.6% are meeting or exceeding state standards in math. Overall, reading scores are up 22.1 percentage points and math 33.8 percentage points since 2001. Additionally, in high schools, the dropout rate has declined, the graduation rate has continued to grow, average ACT scores have increased, and more students are taking advanced placement classes than ever before.

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

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

Chicago Teachers' Union and Other Employee Groups

For its 2006 fiscal year, the Board employed approximately 47,000 persons. Approximately 90% of the Board's employees are represented by seven unions that engage in collective bargaining with the Board. As of June 1, 2007 approximately 74% of the Board's employees were represented by the Chicago Teacher's Union (the "CTU") and approximately 16% were represented by six other unions.

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

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

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

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

Recent Financial Information Concerning the Board

For fiscal years 1996 through 2006, the Board adopted and achieved a balanced budget. For fiscal year 2007, the Board adopted a balanced budget and, as of June 28, 2006, the estimated revenues and expenditures for such fiscal year indicate that such balanced budget will

be achieved. In August 2007, the Board will conduct a public hearing and consider a tentative budget for fiscal year 2008.

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

General Operating Fund Balances. As of June 30, 2006, the Board had a fund balance of $495.8 million, of which $188.1 million has been reserved for encumbrances and other specific purposes. The remaining unreserved balance was $307.7 million, $218.4 million of which was designated to provide operating capital. The fiscal year 2007 budget re-appropriated $105.0 million of ending fiscal year 2006 fund balance, $30.0 million for specific purposes and $75.0 million to balance the general fund.

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

(Amounts in Thousands)

As of June 30

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

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

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

Outstanding Debt Obligations

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

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

	Amount
Direct Debt	
Series 2007A Bonds[1]	$262,785
Series 2007B Bonds	197,765
Series 2007C Bonds	6,870
Total Prior Bonds[2]	3,623,146
Leases Securing PBC Bonds (principal component)	435,535
Total Direct Debt	$4,526,101

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt[3]			
City	$6,259,414	100%	$6,259,414
School Finance Authority	127,795	100%	127,795
Community College District	31,695	100%	31,695
Chicago Park District[4]	861,865	100%	861,865
Water Reclamation District	1,509,320	45.42%	685,513
Cook County	3,022,505	44.47%	1,344,118
Forest Preserve District	127,185	44.47%	56,560
Total Overlapping Debt			$ 9,366,959
Total Direct and Overlapping Debt			$13,893,060

Selected Debt Statistics

Population (2005)	2,896,016[6]
Equalized Assessed Valuation (2006)[5]	$ 59,310,826[7]
Estimated Fair Market Value (2004)	$262,080,627[8]

	Per Capita[9]	% EAV	% FMV
Direct Debt	$1,562.87	7.63%	1.727%
Total Direct and Overlapping Debt	$4,797.30	23.42%	5.301%

(1) Preliminary; to be issued.
(2) Excludes the principal amounts of the Refunded Bonds refunded by the Bonds and Series 2007A Bonds as follows:

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

(3) Excludes outstanding tax anticipation notes and warrants; includes the principal amount of PBC Bonds secured by leases with the following units of government:

Community College District	$31,695,000
Chicago Park District	$21,715,000

(4) Includes $499,975,000 of outstanding general obligation bonds issued as "alternate bonds" under the Debt Reform Act for which the alternate revenue source is personal property replacement tax revenues and parking revenues.
(5) Cook County only.
(6) Source: United States Census Bureau.
(7) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.
(8) Source: The Civic Federation.
(9) Per Capita amounts are not expressed as dollars in thousands.

DEBT SERVICE COVERAGE SCHEDULE

(Dollars in thousands)

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

1 Reflects calendar year 2006 receipts of the Board.

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

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

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

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

Board's Debt Service Schedule

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

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

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

(3) Includes Other Outstanding General Obligation Alternate Bonds.

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

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

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

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

Board's Interest Rate Swap Agreements

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

Series	Counterparty	Trade Date	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
1997A	Royal Bank of Canada	11/16/2006	12/1/2007	$162,785,000	12/1/2028	5.25%	70% of LIBOR + .28%
1997A	Bank of America	8/19/2005	12/1/2007	$100,000,000	12/2/2030	5.25%	70% of LIBOR + .28%
2000C	Royal Bank of Canada	2/13/2007	3/1/2007	$61,100,000	3/1/2032	3.823%	70% of LIBOR
2003B	Goldman Sachs	2/4/2003	2/13/2003	$110,265,000	3/1/2033	3.782%	Through 3/1/07: BMA 3/1/07 – 3/1/33: 70% of LIBOR
	Bank of America	2/4/2003	2/13/2003	$73,510,000	3/1/2033	3.782%	Through 3/1/07: BMA 3/1/07 – 3/1/33: 70% of LIBOR
2003D	Bear Stearns	9/6/2006	3/1/2007	$185,350,000	3/1/2034	70% of LIBOR (1 Month)	65.02% of LIBOR (5 year)
2003D	Lehman Brothers	12/8/2003	12/12/2003	$95,350,000	3/1/2034	3.771%	70% of LIBOR
	Goldman Sachs	12/8/2003	12/12/2003	$90,000,000	3/1/2034	3.771%	70% of LIBOR
2004B	Goldman Sachs	3/31/2004	4/6/2004	$178,845,000	3/1/2032	3.5439%	70% of LIBOR
	Bear Stearns	3/31/2004	4/6/2004	$119,230,000	3/1/2032	3.5439%	70% of LIBOR
	Bear Stearns[1]	3/31/2004	4/6/2004	$298,075,000	3/1/2032	70% of LIBOR	X% of LIBOR
2004C	Royal Bank of Canada	2/13/2007	3/1/2007	$124,320,000	3/1/2035	3.825%	70% of LIBOR
2005A	Loop Capital Markets [2]	10/5/2005	11/1/2005	$116,151,000	12/1/2031	BMA Index	70% of LIBOR + 52.4 bp
	Merrill Lynch & Co.	10/5/2005	11/1/2005	$77,434,000	12/2/2031	BMA Index	80.76% Straight Ratio
2005D-1 & 2005E	Loop Capital Markets [2]	11/30/2005	12/8/2005	$287,055,000	3/1/2036	3.6617%	70% of LIBOR

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

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

(2) Loop Capital Markets backed by Deutsche Bank.

The swaps represented by the Series 2003B Swap Agreements, the Series 2003D Swap Agreements, the Series 2004B Swap Agreements, the 1997A Swap Agreement, the 2005A Swap Agreements, the 2005D-1 Swap Agreement and the 2005E Swap Agreement (collectively, the "Existing Swap Agreements") expose the Board to certain risks. Should the market value of the swaps become positive, the Board may be exposed to the credit risk of the swap providers. If a

swap provider's credit rating declines below specified rating levels and the market value of the swap reaches certain threshold amounts, the Existing Swap Agreements provide that the market value of the swap will be collateralized by the swap provider with U.S. government securities. Collateral would be posted with a third-party custodian.

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

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

Employee Pension Obligations

Funding of Pension Obligations. Pension benefits for eligible teachers and administrators of the Board are provided under a defined benefit plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago, a separate legal entity (the "Pension Fund"). See APPENDIX A – "Financial Statements of the Board of Education of the City of Chicago – Note (12)." The 1995 Amendatory Act provided that by fiscal year 1999 the Pension Fund would be funded using the same actuarial funding method as the Illinois Teachers' Retirement Fund. Applicable provisions of the Illinois Pension Code provide that this method will cause the ratio of the actuarially determined value of the assets of the Pension Fund to its actuarially determined accrued liabilities (or "Funded Ratio") to equal 90% by fiscal year 2045. As of June 30, 2006, the end of the last fiscal year of the Pension Fund for which audited financial information is available, the Funded Ratio for the Pension Fund was 78.00%.

The 1995 Amendatory Act and various additional amendments made to the School Code in 1996, 1997 and 1998: (i) eliminated the Board's obligation to make any local employer pension contribution unless the Funded Ratio of the Pension Fund would otherwise fall below 90%; and (ii) made additional changes to the Board's obligation to fund pension benefits. Based on the current Funded Ratio for the Pension Fund, the Board was required to contribute $80 million to the Pension Fund in fiscal year 2007 and will be required to contribute $130 million to the Pension Fund in fiscal year 2008.

Other Post-Employment Benefits

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

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

The Governmental Accounting Standards Board has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension* ("GASBS 45") for retiree healthcare benefits. Although the Board is not required to adopt the standards set forth in GASBS 45 until its fiscal year 2008, the Board adopted such standards in its fiscal year 2006 financial statements.

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

Debt Management Policy

Due to changes in the financial markets, the Board adopted a new Debt Management Policy (the "Debt Policy") on April 27, 2005. The purpose of the Debt Policy is to provide guidance for debt management and capital planning and to enhance the Board's ability to manage its debt in a conservative and prudent manner. In issuing the Bonds and any future debt, and when entering into derivative contracts, the Board will consider a number of factors, including the duration of the debt in relation to the economic life of the improvement or asset that the issue is financing, its mix of fixed and variable rate debt, negotiated and competitive methods of sale, conditions in both domestic and international markets, credit enhancement agreements, the risks associated with various types of debt and/or derivative instruments, the potential impact of debt service on the operating budget, statutory debt limitations, and credit implications. The Board also believes it should avoid financing general operating costs from debt having maturities greater than one year.

A copy of the Debt Policy is available at the Board's website http://policy.cps.k12.il.us/documents/404.1.pdf. The Debt Policy may be subsequently amended or modified by the Board, without notice to or consent of the owners of the Bonds.

Investment Policy

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

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

OTHER LOCAL GOVERNMENTAL UNITS

Overlapping Entities

There are eight major units of local government located in whole or in part within the boundaries of the school district governed by the Board, each of which (i) is separately incorporated under the laws of the State, (ii) has an independent tax levy, (iii) derives its power and authority under the laws of the State, (iv) maintains its own financial records and accounts and (v) is authorized to issue debt obligations. These units are: the City; the Board; the Chicago School Finance Authority; the Chicago Park District; Community College District Number 508; Cook County; the Forest Preserve District of Cook County; and the Metropolitan Water Reclamation District of Greater Chicago. Each of the foregoing governmental units levies taxes upon property located in the City, and, in some cases, in other parts of Cook County as well. For additional information about the Board, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO." Information about these other units of local government is set forth below.

Major Units of Government

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

The Chicago Park District (the "Park District") has boundaries coterminous with the City and is responsible for the maintenance and operation of parks, boulevards, marinas and

certain other public property within the City. The Park District is governed by a seven-member board, appointed by the Mayor with the approval of the City Council.

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

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

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

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

Interrelationships of These Bodies

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

Other Public Bodies

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

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

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

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

The Regional Transportation Authority (the "RTA") is a municipal corporation authorized to provide planning, funding, coordination and fiscal oversight of three separately governed operating entities which provide public mass transportation services in a six-county area of northeastern Illinois, including Cook County. These include the CTA, METRA, the suburban rail division, and PACE, the suburban bus division. The RTA is governed by a 13-member board, consisting of City and suburban members appointed by elected officials in the six-county RTA region. The RTA is primarily funded by taxes imposed by the RTA on retail sales in the six-county area, and an amount from the State equal to one-fourth of the sales taxes collected in the region by the State. The RTA is also authorized to impose, but does not presently impose, taxes on automobile rentals, motor fuel and off-street parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes.

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

Various authorities have been created under Illinois law to facilitate the financing of educational facilities, health facilities, highways, housing, industrial development, sports

facilities, port facilities and other activities. These authorities are not authorized to levy real property taxes.

Chicago School Finance Authority

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

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

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

Debt Obligations. Since 1980, the Authority has issued $1,256,215,000 of its general obligation bonds to provide the Board with moneys for operating purposes, school rehabilitation and school construction purposes, working cash purposes and to refinance short-term debt obligations and to refund outstanding bonds of the Authority. See APPENDIX A – "Financial Statements of the Board of Education of the City of Chicago," for a more complete description of the uses of the proceeds of the various series of bonds issued by the Authority. As of the date of this Official Statement, $127,795,000 of the Authority's bonds are outstanding, net of bonds defeased. The Authority's bonds are general obligations of the Authority, payable from a separate real estate tax levied on all real property in the School District without limit as to rate or amount. The Authority's bonds are not a direct or contingent obligation of the Board. The Authority's levy is a separate levy in addition to all taxes which the Board or the City are authorized to levy. For additional information, see "BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations – Board's Overlapping Debt Schedule."

THE REAL PROPERTY TAX SYSTEM

Real Property Assessment, Tax Levy and Collection Procedures

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

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

Assessment. The Cook County Assessor (the "Assessor") is responsible for the assessment of all taxable real property within the County, except for certain railroad property and pollution control equipment assessed directly by the State. One-third of the real property in the County is reassessed each year on a repeating triennial schedule established by the Assessor. The City was reassessed in tax year 2006 and will be reassessed in 2009. The suburbs in the northern and northwestern portions of the County were reassessed in tax year 2004. The suburbs in the western and southern portions of the County were reassessed in tax year 2005.

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

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

Owners of property are able to appeal decisions of the Board of Review to the Illinois Property Tax Appeal Board (the "PTAB"), a statewide administrative body. The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Depending on the amount of the proposed change in Assessed Valuation, taxpayers may appeal decisions of the PTAB to either the Circuit Court of Cook County or the Illinois Appellate Court under the Illinois Administrative Review Law.

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

class of property, in a county that classifies property, to two and one-half times the level of assessment of the lowest class of property in that county. As a result, the PTAB established a maximum assessment level that is significantly below the assessment levels for commercial and industrial property currently set forth in the Classification Ordinance.

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

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

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

As an alternative to seeking review of Assessed Valuations by the PTAB, taxpayers who have first exhausted their remedies before the Board of Review and have fully and timely paid their taxes may file an objection in the Circuit Court of Cook County. In addition, in cases where the Assessor agrees that an assessment error has been made after tax bills have been issued, the Assessor can correct the Assessed Value, and thus reduce the amount of taxes due, by issuing a Certificate of Error.

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

Equalization. After the Assessed Valuation for each parcel of real estate in a county has been determined for a given year (including any revisions made by the Board of Review), the

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

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

Exemptions. The annual general homestead exemption provides for the reduction of the Equalized Assessed Valuation of certain property owned and used exclusively for residential purposes by the amount of any increase over the 1977 Equalized Assessed Valuation, up to a maximum reduction of $5,000. Additional exemptions exist for (i) senior citizens, with the Assessor authorized to reduce the Equalized Assessed Valuation on a senior citizen's home by $3,000, and (ii) disabled veterans, with the Assessor authorized annually to exempt up to $70,000 of the Assessed Valuation of certain property owned and used exclusively by such veterans or their spouses for residential purposes. A homestead improvement exemption allows homeowners to exempt up to $75,000 of the increase in the fair cash value of their residence due to certain home improvements to an existing structure without increasing the Assessed Valuation of their property for at least four years. For rehabilitation of certain historic property, the Equalized Assessed Valuation is limited for eight years to the value when the rehabilitation work began. The Senior Citizens Tax Freeze Homestead Exemption freezes property tax assessments for homeowners who are 65 and older and have annual incomes of $45,000 or less. In general, the exemption limits the annual real property tax bill of such property by granting to qualifying senior citizens an exemption as to a portion of the valuation of their property. Certain property is also exempt from taxation on the basis of ownership and/or use.

Additionally, counties have been authorized to create special property tax exemptions in long-established residential areas or in areas of deteriorated, vacant or abandoned homes and properties. Under such an exemption, longtime, residential owner-occupants in eligible areas would be entitled to a deferral or exemption from that portion of property taxes resulting from an increase in market value because of refurbishment or renovation of other residences or construction of new residences in the area. On June 5, 2001, the County enacted the Longtime Homeowner Exemption Ordinance, which provides property tax relief from dramatic rises in property taxes directly or indirectly attributable to gentrification in the form of an exemption of

certain homeowners who have resided in their homes for 10 consecutive years (or five consecutive years for homeowners who have received assistance in the acquisition of the property as part of a government or nonprofit housing program), and whose annual household income for the year of assessment does not exceed 115% of the Chicago Primary Metropolitan Statistical Area median income as defined by United States Department of Housing and Urban Development. Recent amendments to the Property Tax Code have capped the Longtime Homeowner Exemption at $20,000 in equalized assessed value per levy year.

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

The Alternative General Homestead Exemption limits future increases in the Equalized Assessed Valuation of residential property to an average annual increase of not more than 7% per year for a total of three years. Homes that do not increase by at least 7% a year are entitled to the General Homestead Exemption as discussed above. The amount of this exemption for each applicable year is the Equalized Assessed Valuation of the homestead property for the current tax year minus the "adjusted homestead value," which is defined as the lesser of (i) the property's base homestead value increased by 7% for each tax year after 2002 through and including the current tax year or (ii) the property's Equalized Assessed Valuation for the current tax year minus $5,000. The base homestead value equals the Equalized Assessed Valuation of the homestead property for the base year prior to exemptions, less $5,000 in tax year 2004 and thereafter. However, the total exemptions claimed by a homeowner under the Alternative General Homestead Exemption cannot exceed $20,000 for taxable years 2003, 2004 and 2005 in the City, for taxable years 2004, 2005 and 2006 in the North Suburbs, and for taxable years 2005, 2006 and 2007 in the South and West Suburbs. Additionally, the total exemption is limited to $5,000 for homeowners who are also entitled to the Senior Citizens Tax Freeze Homestead Exemption.

The Alternative General Homestead Exemption is temporary and is only available for three years following the year a homeowner's property is assessed. If the general assessment year for the property is 2005, the Alternative General Homestead Exemption applies for the assessment years 2005, 2006 and 2007. If the general assessment year for the property is 2006, the Alternative General Homestead Exemption applies for the assessment years 2006, 2007 and 2008. Lastly, if the general assessment year for the property is 2008, the Alternative General Homestead Exemption applies for the assessment years 2008, 2009 and 2010. For the first taxable year only after the Alternative General Homestead Exemption no longer applies, an additional homestead exemption of $5,000 is available for owners (i) who have not been granted a Senior Citizens Tax Freeze Homestead Exemption for the taxable year, (ii) whose qualified property has an Assessed Valuation that has increased by more than 20% over the previous Assessed Valuation of the property, and (iii) who have a household income of $30,000 or less. After the Alternative General Homestead Exemption is phased out, homeowners are entitled to the General Homestead Exemption and other exemptions described above. In the 2007 legislative session, Senate Bill 13 has been introduced to extend the Alternative General Homestead Exemption law for three more years. Pursuant to Senate Bill 13, the maximum exemption will increase $20,000 in Equalized Assessed Valuation to $60,000 in Equalized

Assessed Valuations, although in Cook County the increase will take effect over a staggered three year assessment period. If passed, the new limits would apply to all counties upon adoption by ordinance.

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

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

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

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

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

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first always due on March 1 and the second due on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill equal to one-half of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the current levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Over the

last 10 years, the second installment "penalty date" (that is, the date after which interest is due on unpaid amounts) has not been later than November 15; and the date for tax year 2005 was September 1, 2006. It is possible that delays in the assessment process or changes to the assessment appeal process described above will cause delays in the preparation and mailing of second installment tax bills in future years.

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

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

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

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

Property Tax Extension Limitation Law; Issuance of Alternate Bonds

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

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

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

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

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

Bond Issue Notification Act

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

Property Tax Information

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

ASSESSED, EQUALIZED ASSESSED AND ESTIMATED VALUE OF ALL TAXABLE PROPERTY 1996-2005

(Dollars in Thousands)

Tax Year Levy[9]	Assessed Values[1]					State Equalization Factor[2]	Total Equalized Assessed Value[3]	Total Estimated Fair Cash Value[4]	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
	Class 2[5]	Class 3[6]	Class 5[7]	Other[8]	Total				
2005	$13,420,538	$1,842,613	$10,502,698	$462,099	$26,227,948	2.7320	$59,304,530	Not available[10]	Not available[10]
2004	12,998,216	1,883,047	10,401,428	465,464	25,738,155	2.5757	55,283,639	262,080,627	21.09
2003	12,677,199	2,233,572	10,303,731	487,680	25,702,182	2.4598	53,168,632	263,482,258	20.18
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	189,362,475	23.94
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51
2000	8,758,682	1,966,921	8,807,444	342,942	19,875,989	2.2235	40,480,077	165,520,130	24.46
1999	6,777,400	2,021,411	7,910,838	282,255	16,991,904	2.2505	35,354,802	124,544,158	28.39
1998	6,646,198	2,047,577	7,848,335	267,006	16,809,116	2.1799	33,940,146	112,606,894	30.16
1997	6,554,717	2,077,044	7,809,486	262,032	16,703,279	2.1489	33,349,557	106,282,207	31.40
1996	5,843,068	1,930,178	7,338,644	255,507	15,367,397	2.1517	30,765,001	100,460,113	30.64

(1) Source: Cook County Assessor's Office.
(2) Source: Illinois Department of Revenue.
(3) Source: Cook County Clerk's Office. Calculations are net of exemptions and include assessment of pollution control facilities. Excludes DuPage County Valuation.
(4) Source: The Civic Federation. Excludes railroad property.
(5) Residential, six units and under.
(6) Residential, seven units and over and mixed-use.
(7) Industrial/Commercial.
(8) Vacant, not-for-profit and industrial/commercial incentive classes.
(9) Triennial updates of assessed valuation occurred in years 1997, 2000, 2003 and 2006.
(10) Tax Levy Year 2005 not available as of the date of this Official Statement.

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

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

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

Source: Board of Education of the City of Chicago

Real Property Tax Rates[1]

(per $100 equalized assessed valuation)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Tax Rates by Board Fund:[2]									
Educational	$2.998	$3.059	$3.000	$2.756	$2.712	$2.670	$2.258	$2.301	$2.142
Special Education	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
School District Medicare	0.022	0.044	0.048	0.047	0.031	0.017	0.000	0.000	0.000
Agricultural Science	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Building	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Playground and Recreational	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Textbook	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.246	0.192	0.206	0.141	0.191	0.150	0.219	0.131	0.228
Teachers' Pension	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Operation and Maintenance	0.719	0.722	0.701	0.640	0.685	0.609	0.565	0.576	0.565
Bond Redemption & Interest	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals	0.099	0.155	0.149	0.130	0.125	0.116	0.100	0.096	0.091
Board Subtotal	$4.084	$4.172	$4.104	$3.714	$3.744	$3.562	$3.142	$3,104	$3.026
Other Major Government Units:									
City of Chicago	$2.024	$1.998	$1.860	$1.660	$1.637	$1.591	$1.380	$1.302	$1.243
Community College District	0.356	0.354	0.347	0.311	0.307	0.280	0.246	0.242	0.234
School Finance Authority	0.270	0.268	0.255	0.223	0.223	0.177	0.151	0.177	0.127
Chicago Park District	0.665	0.653	0.627	0.572	0.567	0.545	0.464	0.455	0.443
Water Reclamation District	0.451	0.444	0.419	0.415	0.401	0.371	0.361	0.347	0.315
Cook County	0.919	0.911	0.854	0.824	0.746	0.690	0.630	0.593	0.533
Cook County Forest Preserve	0.074	0.072	0.070	0.069	0.067	0.061	0.059	0.060	0.060
Other Unit Subtotal	$4.759	$4.700	$4.432	$4.074	$3.948	$3.715	$3.291	$3.176	$2.955
TOTAL	$8.843	$8.872	$8.536	$7.788	$7.692	$7.277	$6.433	$6.280	$5.981

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

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

TAX EXEMPTION

Summary of Co-Bond Counsel Opinion

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

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

Bonds Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of each maturity of the Bonds is sold to the public (the "Offering Price") and the principal amount payable at maturity of such Bonds is given special treatment for Federal income tax purposes. If the Offering Price is higher than the maturity value of a Bond, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Bond, the difference between the two is known as "original issue discount."

Bond premium and original issue discount are amortized over the term of a Bond on the basis of the owner's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as a reduction in the amount of tax-exempt interest earned during such period. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Bond for Federal income tax purposes, to the same extent and with the same limitations as current interest.

Owners who purchase Bonds at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Bonds. In addition, owners of Bonds should consult their tax advisors with respect to the state and local tax consequences of

owning the Bonds; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for Federal income tax purposes.

Exclusion from Gross Income: Requirements

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

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

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

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

Covenants to Comply

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

Risks of Non-Compliance

In the event that the Board fails to comply with the requirements of the Code, interest on the Bonds may become includable in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue. In such event, the Indenture requires neither acceleration of payment of principal of, or interest on, the Bonds nor payment of any additional interest or penalties to the owners of the Bonds.

Federal Income Tax Consequences

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

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

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

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

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

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

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

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

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

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

RATINGS

The Bonds received ratings of "AAA" by S&P, "AAA" by Fitch Ratings ("Fitch") and "Aaa" by Moody's based on the Bond Insurance Policy for the Bonds to be issued by the Bond Insurer. The Bonds have also received ratings of "A+" by S&P, "A+" by Fitch and "A2" by

Moody's based upon the creditworthiness of the Board and without regard to bond insurance or other credit enhancement.

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

FINANCIAL STATEMENTS

The financial statements of the Board as of and for the fiscal year indicated in such financial statements are included herein. See APPENDIX A – AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006.

FINANCIAL ADVISOR

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

UNDERWRITING

Goldman, Sachs & Co., as representative of the Underwriters identified on the cover page of this Official Statement (the "Representative"), has agreed to purchase the Series 2007B Bonds at an aggregate purchase price of $207,019,016.63 (which represents an aggregate principal amount of $197,765,000, plus net original issue premium of $10,302,848.25, less an Underwriters' discount of $1,048,831.62). The Representative has agreed to purchase the Series 2007C Bonds at an aggregate purchase price of $6,847,722.27 (which represents an aggregate principal amount of $6,870,000, plus net original issue premium of $5,906.55, less an Underwriters' discount of $28,184.28). The Bonds will be offered to the public at the price of par, as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds, if they are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public.

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

CERTAIN VERIFICATIONS

Causey Demgen & Moore Inc. (the "Verifier"), independent certified public accountants, upon delivery of the Bonds, will deliver to the Underwriters a report stating that the firm, at the request of the Board and the Underwriters, has reviewed the mathematical accuracy of certain computations based on certain assumptions relating to (i) the sufficiency of the principal and interest received from the investment in the Governmental Obligations, together with any initial cash deposit, to meet the timely payment of the applicable principal or redemption price of, and interest on the Refunded Bonds, as described under "PLAN OF REFUNDING" and "PLAN OF FINANCE," and (ii) the actuarial yields on the Bonds and the Government Obligations; such computations with respect to such yields to be used to support the conclusion of Co-Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Code. The Verifier will express no opinion on the attainability of any assumptions or the tax-exempt status of the Bonds.

CERTAIN LEGAL MATTERS

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

LITIGATION

General

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

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

Contract Dispute

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

The Board recently filed a motion to dismiss the complaint for failure to state a cause of action, which is set for initial hearing on August 8, 2007, at which time a briefing schedule will likely be entered. In the unlikely event that the case results in a finding of liability against the Board, the estimated verdict is less than $5 million.

Teacher Tenure Litigation

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

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

On September 17, 2001, the Board filed a Petition for Rehearing challenging the Appellate Court's ruling on the delegation issue, which was denied on December 20, 2001. Thereafter, on February 6, 2002, the Illinois Supreme Court granted the Board's petition seeking appeal of the Appellate Court's decision. On November 21, 2002, the Illinois Supreme Court, among other things, affirmed the Appellate Court's holding that tenured teachers can be laid off, and agreed that the Board could delegate its layoff authority. However, the Illinois Supreme

Court also held that the Board was prohibited from delegating its layoff authority to school principals, and explicitly did not decide "whether the [layoff] authority may be delegated to officers or administrators other than the general superintendent and attorney." The case was remanded to the Circuit Court to determine "whether the layoff authority was delegated and, if so, to whom."

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

Jones, et. al. v. Board of Education 00 CH 093 74 is an action brought by the CTU essentially repeating the claims asserted in Land. Based upon the decision in a previous matter and the pendency of Land, the Board filed a motion to stay this action, arguing that the legal and factual issues raised in this action will be resolved by the final decisions in the previously filed lawsuits. The Court granted the Board's motion on August 16, 2000, granting a stay of Jones in all respects. It is unlikely that this action would give rise to liability not contemplated in the discussion of the Land litigation. The Land and Jones cases were consolidated in January, 2003. On May 11, 2006, the Court granted the Board's motion for summary judgment. On June 29, 2007, the Illinois Appellate Court affirmed the award of summary judgment to the Board. The deadline for plaintiffs to file a petition for leave to appeal to the Illinois Supreme Court is August 3, 2007.

Tort Claim

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

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

Dispute Over Pension Fund Claims for Reimbursement

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

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

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

CONTINUING DISCLOSURE UNDERTAKING

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

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

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

Annual Financial Information Disclosure

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

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO:

School System

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

Board's Debt Service Schedule

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

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

Events Notification; Material Events Disclosure

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

Consequences of Failure to Provide Information

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

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

AUTHORIZATION AND MISCELLANEOUS

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

By: s/ Pedro Martinez
Chief Financial Officer

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APPENDIX A

Audited Financial Statements for Fiscal Year 2006

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McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

McGladrey & Pullen, LLP is a member firm of RSM International –
an affiliation of separate and independent legal entities.

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

McGladrey & Pullen, LLP

Chicago, Illinois
December 1, 2006

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

FINANCIAL HIGHLIGHTS

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

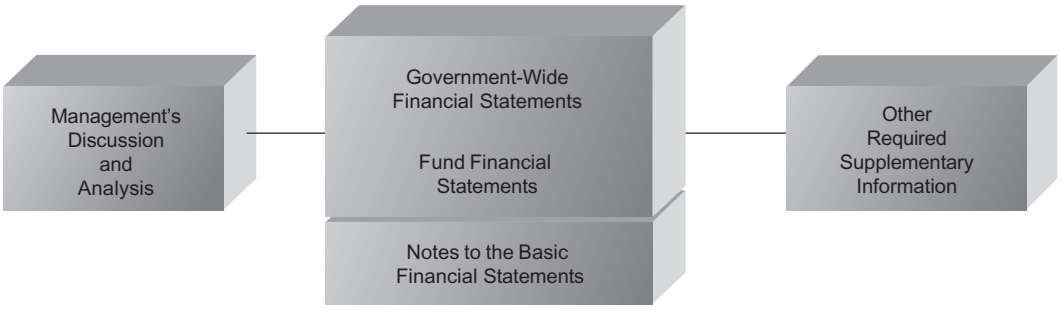
Total General Operating Fund actual revenues less expenditures exceeded budgeted resources less final appropriations by $150 million.

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

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

USING THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

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



OVERVIEW OF THE FINANCIAL STATEMENTS

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

Condensed Statement of Net Assets
(Millions of dollars)

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

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

- **Capital assets**, net of depreciation, increased $108 million or 2.5% over the prior fiscal year due to the continued progress of the Capital Improvement Program.

- **Long-term debt** increased $385.6 million, or 9.1%. The total long-term portion of debt outstanding and capitalized leases was $4.20 billion in fiscal year 2005 and $4.58 billion in fiscal year 2006. In fiscal year 2006, CPS issued $385.6 million in Unlimited Tax Obligation Bonds to fund the Capital Improvement Program.

- **Accrued pension** increased to $1.51 billion in fiscal year 2006 from $1.26 billion in fiscal year 2005, an increase of $256.9 million, or 20.4%. The year-end balance reflects the increase in the net pension obligation related to the Public School Teachers' Pension and Retirement Fund of Chicago.

- **Other postemployment benefit liabilities** of $213.3 million were recognized for the first time as CPS early adopted GASBS 45. This liability represents actuarially determined healthcare costs associated with the Public School Teachers' Pension and Retirement Fund of Chicago.

- **Other long-term liabilities** decreased to $312.3 million in fiscal year 2006 from $322 million in fiscal year 2005, a decrease of $9.6 million, or 3%. The year-end balance reflects decreases in accrued sick pay, vacation pay and tort of $2.3 million, $3.8 million and $2.9 million, respectively, and increased accrued workers' compensation liabilities of $3.2 million.

- **CPS' net assets** decreased $359 million to $173 million. Of this amount, $268 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of $443 million are reported separately to present legal constraints from debt covenants and enabling legislation. The ($539) million of unrestricted deficit represents the shortfall CPS would experience if it had to liquidate all of its non-capital liabilities as of June 30, 2006. A deficit in unrestricted net assets should not be viewed as evidence of financial difficulties but rather as a result of different measurement focuses.

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

Changes in Net Assets
(Millions of dollars)

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

Capital Assets

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

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

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

Debt and Capitalized Lease Obligations

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

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

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

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

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

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

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

Pension Funding

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

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

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

OVERVIEW OF FUND FINANCIAL STATEMENTS

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

Governmental Funds

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

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

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

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

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

Total Revenues and Other Financing Sources
(Millions of dollars)

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

General Operating Fund

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

Revenues:

Revenues and Other Financing Sources
(Millions of dollars)

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

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

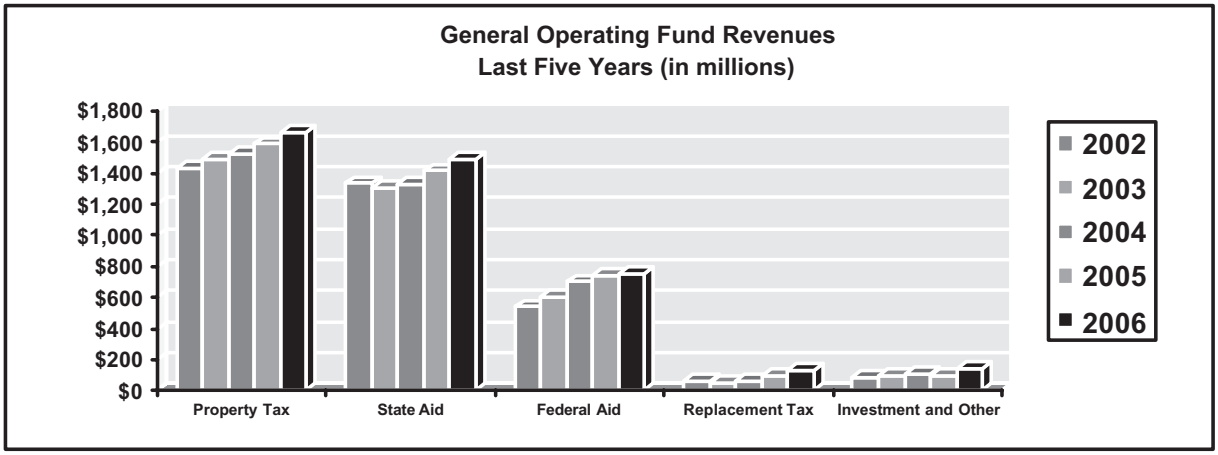
Personal property replacement taxes increased $37.1 million from fiscal year 2005, due to foreign tax holiday, increased collections and decreases in corporate refund reserves.

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

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

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

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



Expenditures:

(Millions of dollars)

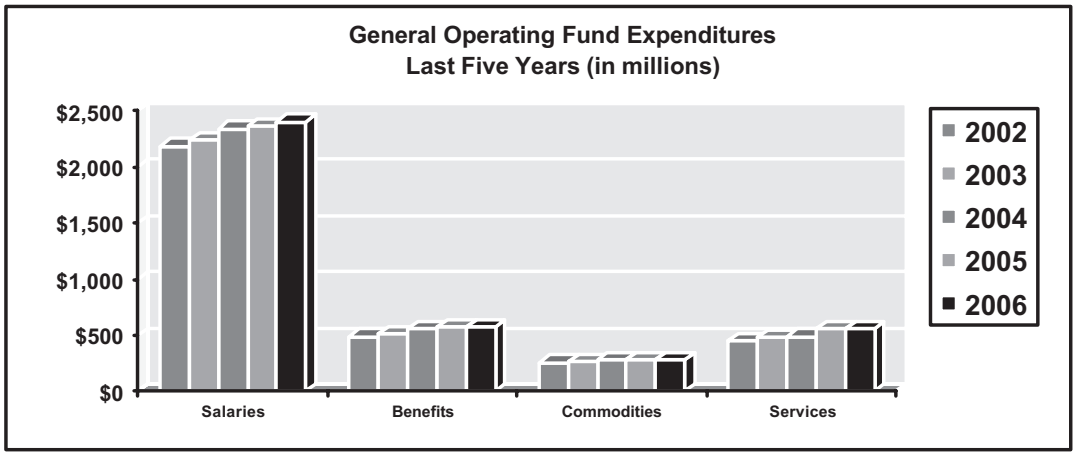
	2006 Amount	2005 Amount	2006 Percent of Total	Increase (Decrease) From 2005	Percent Increase (Decrease) from 2005
Salaries	$2,454	$2,366	60.1%	$ 88	3.7%
Benefits	635	563	15.5%	72	12.8%
Commodities	277	280	6.8%	(3)	(1.1)%
Services	623	556	15.3%	67	12.1%
Other	96	91	2.4%	5	5.5%
Total	$4,085	$3,856	100.0%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

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

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

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

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



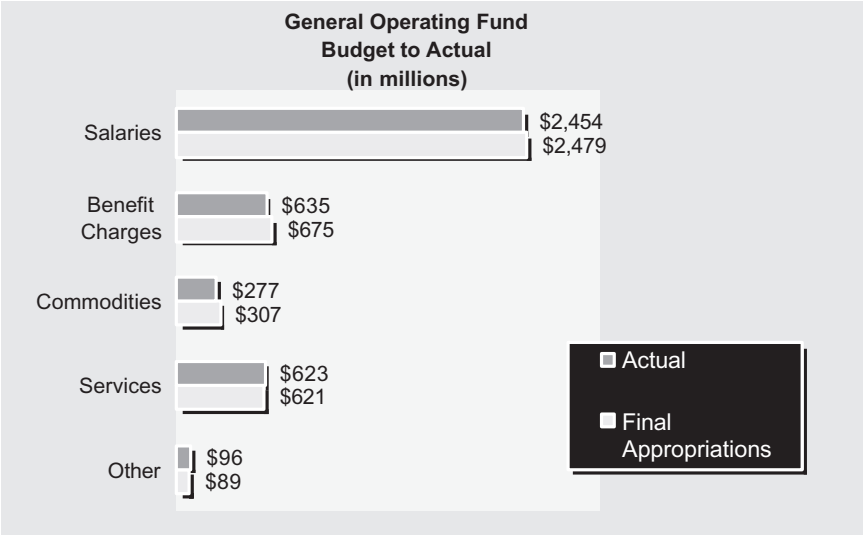
Notes to Basic Financial Statements

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

BUDGETARY HIGHLIGHTS

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

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



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

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

REQUESTS FOR INFORMATION

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

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

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

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF NET ASSETS

June 30, 2006

(Thousands of Dollars)

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

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

(Thousands of Dollars)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	$3,107,897	$ 3,145	$484,231	$44,098	$(2,576,423)
Support services:					
Pupil support services	346,434	—	34,869	5,801	(305,764)
Administrative support services	161,802	—	51,453	2,709	(107,640)
Facility support services	422,731	—	13,455	6,202	(403,074)
Instructional support services	465,106	—	115,471	6,599	(343,036)
Food services	179,725	9,317	164,658	1,044	(4,706)
Community services	46,205	—	32,779	279	(13,147)
Interest expense	217,848	—	—	—	(217,848)
Other	23,404	—	—	—	(23,404)
Total Governmental Activities	$4,971,152	$12,462	$896,916	$66,732	$(3,995,042)

General Revenues:	
Taxes:	
Property taxes	$ 1,768,457
Replacement taxes	184,700
State aid	1,532,169
Interest and investment earnings	71,972
Gain recognized from swaps	5,312
Miscellaneous	73,629
Total General Revenues	$ 3,636,239
Change in net assets	$ (358,803)
Net assets — beginning	531,414
Net assets — ending	$ 172,611

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

BALANCE SHEET — GOVERNMENTAL FUNDS

June 30, 2006

(Thousands of Dollars)

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

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

RECONCILIATION OF THE GOVERNMENTAL FUNDS

BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2006

(Thousands of Dollars)

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

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

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

For the Fiscal Year Ended June 30, 2006

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

(Thousands of Dollars)

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

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2006

(Thousands of Dollars)

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

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

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

For the Fiscal Year Ended June 30, 2006

(Thousands of Dollars)

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

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

New Accounting Standards

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

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

Description of Government-Wide Financial Statements

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

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

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Funds

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

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

Governmental Funds

a. General Operating Fund

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

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

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

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

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

c. Debt Service Fund

The Debt Service Fund includes the following programs:

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

Restricted Assets

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

Receivables and Payables

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

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

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

Capital Assets

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Vacation and Sick Pay

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

Long-term Obligations

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

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

Fund Balances and Equity

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

The Statement of Net Assets include the following:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Comparative Data

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

Management's Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

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

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

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

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE

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

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

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

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

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

A. The 2006 Educational tax rate is limited to the sum of $2.936 per $100 of EAV plus the difference (the ''difference tax'') between $.50 per $100 of EAV and the rate of taxes extended for the School Finance Authority.

B. These tax rates are not limited by law, but are subject to the limits described previously.

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

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

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

NOTE 4. CASH DEPOSITS AND INVESTMENTS

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

Cash

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

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

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

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

Investments

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

The CPS' Investment Policy contains the following stated objectives:

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

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

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

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

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

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

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

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

NOTE 5. RECEIVABLES

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

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

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

Deferred property taxes	$ 916,424
Other deferred revenue	258,580
Total Deferred Revenue	$1,175,004

NOTE 6. CAPITAL ASSETS

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

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

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

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

Construction Commitments

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

NOTE 7. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

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

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

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

Transfers

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

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

The CPS issued the following bonds in fiscal year 2006:

Unlimited Tax General Obligation Bonds (Series 2005C)

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

Unlimited Tax General Obligation Bonds (Series 2005DE)

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

Unlimited Tax General Obligation Bonds (Series 2006A)

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

NOTE 8. LONG-TERM DEBT (continued)

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

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

NOTE 8. LONG-TERM DEBT (continued)

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

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

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

Defeased Debt

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

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

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

NOTE 8. LONG-TERM DEBT (continued)

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

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

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

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

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

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

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

NOTE 9. CAPITALIZED LEASES

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

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

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

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

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

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

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

Operating Leases

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

NOTE 9. CAPITALIZED LEASES (continued)

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

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

NOTE 10. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

Series 2003B

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

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

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

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

Swap Counterparty Data as of June 30, 2006

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

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

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

Series 2003D

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

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

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

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

Swap Counterparty Data as of June 30, 2006

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

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

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

Series 2004B

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

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

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

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

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

Swap Counterparty Data as of June 30, 2006

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

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

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

Series 1997A

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

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

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

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

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

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

Series 2005A

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

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

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

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

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

Swap Counterparty Data as of June 30, 2006

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

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

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

Series 2005DE

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

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

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

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

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

Swap Counterparty Data as of June 30, 2006

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

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

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

NOTE 11. OTHER LONG-TERM LIABILITIES

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

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

Sick Pay Benefits

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

Vacation Pay Benefits

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

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

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

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

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

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

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

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

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

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

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

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

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Pension

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

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

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

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

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

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

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

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

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

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

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

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

	2006	2005	2004
Annual required contribution (ARC)	$ 328,366	$ 258,883	$ 202,971
Interest on Net Pension Obligation (NPO)	100,492	83,200	71,580
Adjustment to annual required contribution	(61,849)	(51,206)	(44,053)
Annual Pension Cost (APC) for the fiscal year ended June 30, 2006	$ 367,009	$ 290,877	$ 230,498
Less: Contributions made	(110,132)	(74,729)	(85,253)
Increase in NPO	$ 256,877	$ 216,148	$ 145,245
Add NPO, beginning of year	1,256,146	1,039,998	894,753
NPO, end of year	$1,513,023	$1,256,146	$1,039,998

Actuarial valuation date	June 30, 2005
Actual cost method	Projected Unit Credit
Amortization method	Level percent, open
Remaining amortization period	40 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	Average of 4.6% per year
Inflation	3%

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

	2005	2004	2003
Actuarial value of assets	$ 10,506,471	$ 10,392,193	$ 10,494,755
Less: Actuarial Accrued Liability (AAL)	(13,295,876)	(12,105,681)	(11,411,528)
AAL unfunded (liability)/surplus	$ (2,789,405)	$ (1,713,488)	$ (916,773)
Funded ratio	79.0%	85.8%	92.0%
Covered payroll	$ 1,968,612	$ 1,767,631	$ 1,706,205
Unfunded AAL as a percentage of covered payroll	70.6%	96.9%	53.7%

	2006	2005	2004
Annual pension cost	$ 367,009	$ 290,877	$ 230,498
Percentage of annual pension cost contributed	30.0%	25.7%	37.0%
Net Pension Obligation	$1,513,023	$1,256,146	$1,039,998

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

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

Other Personnel

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

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

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

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

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

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

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

Other Postemployment Benefits (OPEB)

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

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

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

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Total actuarial valuation as of June 30, 2005	$2,825,543
Total OPEB assets of the Teacher Pension Fund	89,763
Unfunded actuarial liability	$2,735,780
Annual amount to amortize unfunded liability over 30 years	
As a level percent of payroll	$ 106,758
Normal cost	106,557
Annual required contribution	$ 213,315
Interest on net OPEB obligation	N/a
Adjustment to annual required contribution	N/a
Annual OPEB cost for the fiscal year ended June 30, 2006	$ 213,316
Less: Contributions made	—
Net OPEB	$ 213,316

Actuarial valuation date	June 30, 2005
Actual cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	30 years
Actuarial assumptions:	
Discount rate	5%
Medical trend rate	12%
Inflation	3%

Other Personnel

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

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY

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

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

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

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

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

NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY (continued)

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

NOTE 14. FUND BALANCE RESERVATIONS AND NET ASSET RESTRICTIONS

a. Fund Balance Reservation

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

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

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

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

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

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

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

b. Net Assets Restrictions

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

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

Purpose	Restricted Amount
Restricted Donations	$ 1,503
Specific Purposes	84,388
Total	$85,891

NOTE 15. LITIGATION AND CONTINGENCIES

a. Teacher Tenure

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

On August 27, 2002, the Appellate Court issued an opinion affirming in part and reversing in part the Circuit Court's decision. The Appellate Court concluded, among other things, that (i) the Board has the statutory power to layoff tenured teachers, including the Plaintiffs here, (ii) the Board complied with the Policy in laying off the Plaintiffs, and (iii) the layoffs did not violate Plaintiffs' due process rights. With respect to each of these issues (and others), the Appellate Court affirmed the Circuit Court's grant of summary judgment in favor of the Board. However, the Appellate Court also held that although ''the Board may establish a layoff policy ..., [the Board] may not through that policy delegate its absolute layoff power to school administrators.'' The Court remanded the case for further proceedings related to the delegation issue and related to the factual issues relating to the employment record of one of the Plaintiffs.

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

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

Should the CTU ultimately prevail, the Court could order reinstatement and back wages for all of the Plaintiffs. The total amount of exposure may be significant, depending on the length of time that passes from the date of the layoff to the date of an ordered reinstatement. Given the current status of these matters, it is not possible to determine whether an ultimate finding of liability against the Board is probable or the exact cost associated with any such finding.

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

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

b. State and Federal Aid Receipts

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

c. Asbestos and Lead Abatement

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

d. Wrongful Death Claim

In *Della Coleman, as Special Administrator of the Estate of Derrick Spencer v. Board of Education,* the family of Derrick Spencer, an eighth grade student, filed suit against the Board and Quality Inn Hotels for damages arising from Derrick's drowning while on a field trip with other eighth grade students from the Goldblatt Elementary School. The drowning occurred in Ohio on May 24, 2002, after one of Derrick's classmates pushed him into the pool at the Quality Inn Hotel. The suit alleges that the Board was negligent in numerous respects, including: failing to provide lifeguards in connection with the swimming at Quality Inn Hotel; failing to assess Derrick's swimming skills; failing to monitor the Goldblatt students in and around the swimming pool; failing to follow Board policies regarding school trips, and; failing to protect Derrick from the dangerous water conditions at the Quality Inn Hotel. A finding of liability on the part of CPS cannot be predicted as either probable or remote at this juncture.

e. Dispute Over Pension Fund Claims for Reimbursement

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

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

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

f. Other Litigation and Claims

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

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

NOTE 16. SUBSEQUENT EVENTS

Derivative Instruments

Series 2003D

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

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

Series 1997A

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

Bond Issuance

Unlimited Tax General Obligation Bonds (Series 2006B)

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

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

Definitions of Certain Terms

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

"*Additional Bonds*" means any alternate bonds issued in the future in accordance with the provisions of the Act on a parity with and sharing ratably and equally in all or any portion of the Pledged Revenues with the Bonds as authorized in the Indenture.

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

"*Authorized Denominations*" means $5,000 or any integral multiple thereof.

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

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

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

"*Bond Insurance Policy*" means the Financial Guaranty Insurance Policy No. 26913BE issued by the Bond Insurer insuring the payment of the principal of and interest on the Bonds as provided therein.

"*Bond Insurer*" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, the issuer of the Bond Insurance Policy.

"*Bond Payment Account*" means the Bond Payment Account established by the Indenture.

"*Bond Resolution*" means Resolution No. 07-0725-RS4, adopted by the Board on July 25, 2007, authorizing the issuance of the Bonds.

"*Bonds*" means collectively, the Series 2007B Bonds and the Series 2007C Bonds.

"*Bond Year*" means each annual period beginning on December 2 of a calendar year to and including December 1 of the next succeeding calendar year.

"*Business Day*" means any day which is not a Saturday, a Sunday, a legal holiday or a day on which banking institutions in the city where the principal corporate trust office of any Fiduciary is located are authorized by law or executive order to close (and such Fiduciary is in fact closed).

"*Code 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.

"*Costs of Issuance Account*" means the Account of that name established by 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 General Counsel to the Board) or Bond Counsel.

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

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

"*Current Funds*" means moneys which are immediately available in the hands of the payee at the place of payment.

"*Debt Service Fund*" means the Debt Service Fund established by 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 (i) Defeasance Government Obligations and (ii) Pre-refunded Municipal Obligations.

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

"*DTC*" means The Depository Trust Company, New York, New York, as securities depository for the Bonds.

"*DTC Participant*" means any securities broker or dealer, bank, trust company, clearing corporation or other organization depositing Bonds with DTC pursuant to the book-entry only system described in the Indenture.

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

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

"*Event of Default*" means any event so designated and specified as such in this Appendix B under the heading "EVENTS OF DEFAULT AND REMEDIES – Events Of Default."

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

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

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

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

"*Interest Deposit Sub-Account*" means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established by the Indenture.

"*Interest Sub-Account*" means the sub-account of that name in the Bond Payment Account established by the Indenture.

"*Intergovernmental Agreement*" means the Intergovernmental Agreement dated as of October 1, 1997, by and between the Board and the City of Chicago, as from time to time amended and supplemented.

"*Intergovernmental Agreement Revenues*" means the amounts paid to the Board pursuant to the Intergovernmental Agreement.

"*Intergovernmental Agreement Revenues Sub-Account*" means the sub-account of that name in the Payment Sub-Account of the Pledged Revenues Account established by the Indenture.

"*Investment Policy*" means the Investment Policy approved by the Board, as currently in effect and as may be amended from time to time.

"*Investment Securities*" means any of the following securities authorized by law and the Investment Policy as permitted investments of Board funds at the time of purchase thereof:

(i) Government Obligations;

(ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farm Credit System Financial Assistance Corporation
- Farmers Home Administration
- General Services Administration
- U.S. Maritime Administration
- Small Business Administration
- Government National Mortgage Association (GNMA)
- U.S. Department of Housing & Urban Development (PHA's)
- Federal Housing Administration;

(iii) Senior debt obligations which at the time of purchase are rated "AAA" by Standard & Poor's Ratings Services ("*S&P*") and "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") issued by Fannie Mae or the Federal Home Loan Mortgage Corporation, senior debt obligations of other government agencies;

(iv) U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(v) Commercial paper which is rated at the time of purchase no less than "A-1" or "A-1+" or above by S&P and "P-1" by Moody's and which matures not more than 180 days after the date of purchase;

(vi) Investments in a money market fund which at the time of purchase is rated "AAAm" or "AAAm-G" or better by S&P, including those of the Trustee;

(vii) Repurchase agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of said Act and the Regulations issued thereunder. The government securities that are the subject of such repurchase agreements, unless registered or inscribed in the name of the Board, shall be purchased through banks or trust companies authorized to do business in the State of Illinois;

(viii) Pre-refunded Municipal Obligations; and

(ix) any Forward Supply Contract

"*Letter of Representations*" means the Blanket Issuer Letter of Representations dated March 15, 2002, between the Board and DTC, relating to the book-entry only system for the Bonds described in the Indenture.

"*1997 Prior Bonds*," "*1997 Refunded Bonds*," "*1997A Prior Bonds*" and "*1997A Refunded Bonds*" have the respective meanings given to such terms in the recitals of the Indenture.

"*Outstanding*" means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(i) Any Bonds canceled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys and/or Defeasance Obligations, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or date fixed for redemption, are held in trust under the Indenture and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), *provided that* if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered in connection with any substitution, transfer or exchange; and

(iv) Bonds deemed to have been paid as described herein under the heading "Defeasance."

"*Owner*" means any person who shall be the registered owner of any Bond or Bonds.

"*Paying Agent*" means the Trustee and any other bank, national banking association or trust company designated by a Designated Official as paying agent for the Bonds, and any successor or successors appointed by a Designated Official under the Indenture.

"*Payment Sub-Account*" means the sub-account of that name in the Pledged Revenues Account established by the Indenture.

"*Person*" means and includes an association, unincorporated organization, a corporation, a partnership, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

"*Personal Property Replacement Tax Revenues*" means the amounts allocated and paid to the Board from the Personal Property Tax Replacement Fund of the State pursuant to Section 12 of the State Revenue Sharing Act of the State, as amended, or from such successor or replacement fund or act as may be enacted in the future.

"*Pledged PPRT Revenues*" means Personal Property Replacement Tax Revenues received or to be received by the Board in any Year remaining after any required allocation thereof to provide for the payment of (i) the Statutory Claims and (ii) the Series 1996 Bonds and the Series 1997 Bonds.

"*Pledged Revenues*" means the Pledged PPRT Revenues and the Intergovernmental Agreement Revenues pledged under the Trust Indenture for the payment of the Bonds and any Swap Payments.

"*Pledged Revenues Account*" means the account of that name in the Debt Service Fund established by the Indenture.

"*Pledged Taxes*" means the ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount and pledged under the Indenture as security for the Bonds.

"*Pledged Taxes Account*" means the account of that name in the Debt Service Fund established by 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*"), in the highest rating category of S&P and Moody's or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

"*Principal Sub-Account*" means the sub-account of that name in the Bond Payment Account established by the Indenture.

"*Rating Services*" means the nationally recognized rating services, or any of them, that shall have assigned ratings to any Bonds Outstanding as requested by or on behalf of the Board, and which ratings are then currently in effect.

"*Record Date*" means, with respect to any interest payment date for the Bonds, the 15th day (whether or not a Business Day) of the calendar month next preceding such interest payment date.

"*Redemption Price*" means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

"*Refunding Escrow Agent*" means Amalgamated Bank of Chicago, Chicago, Illinois and any successor or successors appointed under the Series 1997 Bonds Refunding Escrow Agreement or the Series 1997A Bonds Refunding Escrow Agreement.

"*Registrar*" means the Trustee and any other bank, national banking association or trust company appointed by a Designated Official under the Indenture and designated as registrar for the Bonds, and its successor or successors.

"*School District*" means the school district constituted by the City of Chicago, Illinois pursuant to Article 34 of the School Code of the State, as amended, and governed by the Board.

"*Series*" means the Series 2007B Bonds or the Series 2007C Bonds.

"*Series 1996 Bonds*" means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996, of the Board.

"*Series 1997 Bonds*" means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, of the Board.

"*Series 1997 Bonds Refunding Escrow Agreement*" means the Series 1997 Bonds Refunding Escrow Agreement dated as of September 1, 2007, between the Board and the Refunding Escrow Agent, as from time to time amended.

"*Series 1997A Bonds*" means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997A, of the Board.

"*Series 1997A Bonds Refunding Escrow Agreement*" means the Series 1997A Refunding Escrow Agreement dated as of September 1, 2007, between the Board and the Refunding Escrow Agent, as from time to time amended.

"*Series 1998 Bonds*" means the Qualified Zone Academy General Obligation (Alternate) Bonds, Series 1998 (Bronzeville Academy Project), of the Board.

"*Series 1998B-1 Bonds*" means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1998B-1, of the Board.

"*Series 1999A Bonds*" means the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1999A, of the Board.

"*Series 2004A Bonds*" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004A, of the Board.

"*Series 2005B Bonds*" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2005B, of the Board.

"*Series 2007A Bonds*" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A, of the Board.

"*Series 2007B Bonds*" means the $197,765,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007B, of the Board, being issued under Section 2.2(A) of the Indenture and any bonds issued hereunder in substitution or replacement therefor.

"*Series 2007C Bonds*" means the $6,870,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007C, of the Board, being issued under Section 2.2(B) of the Indenture and any bonds issued hereunder in substitution or replacement therefor.

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

"*State*" means the State of Illinois.

"*Statutory Claims*" mean those claims, currently for pension or retirement obligations previously levied and collected from extensions of taxes against personal property, that are required to be paid from the Personal Property Replacement Tax Revenues prior to any other application or use thereof pursuant to Section 12 of the State Revenue Sharing Act, or such successor or replacement act as may be enacted in the future.

"*Statutory Refunding Bonds*" shall have the meaning given to such term in the recitals of the Indenture.

"*Supplemental Indenture*" means any Supplemental Indenture between the Board and the Trustee authorized pursuant to the Indenture.

"*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 the Indenture, "Swap Payment" excludes any non-scheduled payments, including but not limited to termination payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

"*Swap Payment Account*" means the Account of that name in the Debt Service Fund established in the Indenture.

"*Swap Payment Date*" means the date as set forth in the Indenture.

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

"*Tax Agreement*" means the Tax Compliance Agreement, dated the date of issuance of the Bonds, executed by the Board and the Trustee.

"*Trustee*" means Amalgamated Bank of Chicago, Chicago, Illinois, and any successor or successors appointed under the Indenture as hereinafter provided. The "principal corporate trust office" of the Trustee means One West Monroe Street, Chicago, Illinois, 60603, or such other address as is provided by the Trustee.

"*Trust Estate*" means the Pledged Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Granting Clauses of the Indenture.

"*2006 Authorization*" means the authorization adopted by the Board pursuant to Resolution No. 06-0628-RS78 on June 28, 2006, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed $750,000,000.

"*Year*" or "*year*" means a calendar year.

Pledge of Trust Estate

That in order to secure the payment of the principal of, premium, if any, and interest on all Bonds issued under the Indenture, according to the import thereof, and the performance and observance of each and every covenant and condition contained in the Bonds and in the Indenture, and for and in consideration of the premises and of the acceptance by the Trustee of the trusts created, and of the purchase and acceptance of the Bonds by the respective Owners thereof, and for other good and valuable consideration, the sufficiency of which is acknowledged therein, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds shall be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become Owners thereof, the Board in the Indenture pledges and grants a

lien upon the following Trust Estate to the Trustee and its successors in trust and assigns, for the benefit of the Owners and the Bond Insurer, to the extent provided in the Indenture:

(a) The Pledged Revenues and the Pledged Taxes; provided that (i) the pledge of Intergovernmental Agreement Revenues to the Bonds is on a parity with the pledge of such revenues to outstanding Alternate Bonds of the Board payable from Intergovernmental Agreement Revenues, including the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998-1 Bonds, the Series 1999A Bonds and the Series 2007A Bonds and (ii) the pledge of Personal Property Replacement Tax Revenues to the Bonds is on a parity with the pledge of such revenues to the payment of the Series 1997A Bonds, the Series 1998 Bonds, the Series 1998B-1 Bonds, the Series 1999A Bonds, the Series 2004A Bonds, the Series 2005B Bonds and the Series 2007A Bonds, each constituting a series of Alternate Bonds of the Board issued pursuant to the Act;

(b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture except the Swap Payment Account; and

(c) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons to be held by the Trustee under the terms of the Indenture.

Pursuant to Section 13 of the Act, the moneys, securities and properties pledged under the Indenture and received by the Board, shall immediately be subject to the lien and pledge of the Indenture without any physical delivery or further act, and the lien and pledge of 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 pledge.

The Bonds Are General Obligations

Once issued, the Bonds shall be at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds will 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 Revenues for a complete fiscal year of the Board.

The Board reserves the right to issue Additional Bonds from time to time payable from all or any portion of the Pledged Revenues or any other source of payment which may be pledged under the Act, and any such Additional Bonds shall share ratably and equally in the Pledged Revenues with the Bonds; *provided*, *however*, that no Additional Bonds shall be issued

except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Intergovernmental Agreement Revenues subordinate to the Bonds. Such subordinate obligations will be paid from Intergovernmental Agreement Revenues available to the Board in each year in excess of those required to be deposited in the Pledged PPRT Revenues Account hereunder during such Year.

The Board reserves the right to issue bonds or other evidences of indebtedness payable from Intergovernmental Agreement Revenues subordinate to the Bonds. Such subordinate obligations will be paid from Intergovernmental Agreement Revenues available to the Board in each year in excess of those required to be deposited in the Pledged Revenue Account hereunder during such year.

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 for the Bonds pursuant to the Indenture. Interest on the Bonds is payable by check or bank draft mailed or delivered by the Trustee to the Owners as the same appear on the registration books of the Board maintained by the Registrar as of the Record Date or, at the option of any Owner of $1,000,000 or more in aggregate principal amount of Bonds of the same Series, by wire transfer of Current Funds to such bank in the continental United States as said Owner shall request in writing to the Registrar no later than the Record Date. The Bonds shall be payable, with respect to interest, principal, 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.

Additional Bonds Payable From Pledged Revenues

Except as provided in the Indenture, 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 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 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 Revenues or any other source of payment which may be pledged under the Act, and any such Additional Bonds shall share ratably and equally in the Pledged Revenues with the Bonds; provided, however, that no Additional Bonds shall be issued except in accordance with the provisions of the Act as in existence on the date of issuance of the Additional Bonds.

Provisions Regarding Transfer And Exchange Of Bonds

Subject to the operation of the global book-entry only system described in the body of this Official Statement, the following provisions apply to the transfer and exchange of Bonds under the Indenture. Each Bond is transferable, as provided in the Indenture, only upon the

registration books of the Board maintained by the Registrar by the Registered Owner hereof in person, or by its duly authorized attorney, upon surrender hereof with a written instrument of transfer satisfactory to the Registrar duly executed by the Registered Owner or its duly authorized attorney, and thereupon a new registered Bond or Bonds, in the same aggregate principal amount and maturity, shall be issued to the transferee. The Board, the Trustee, the Registrar and any Paying Agent may deem and treat the person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or redemption price hereof and interest due hereon and for all other purposes. The Bonds are issuable in the form of fully registered bonds in the denomination of $5,000 or any integral multiple thereof. Subject to the conditions and upon the payment of the charges provided in the Indenture, Bonds may be surrendered (accompanied by a written instrument of transfer satisfactory to the Registrar duly executed by the Registered Owner or its duly authorized attorney) in exchange for an equal aggregate principal amount of Bonds of the same maturity of any other authorized denominations. The Registrar shall not be required to make any registration, transfer or exchange of any Bond after such Bond has been called for redemption or, in the case of any proposed redemption of Bonds, during the 15 days next preceding the date of first giving of notice of such redemption.

Establishment and Application of 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. There shall be paid into the Costs of Issuance Account the amount required to be so paid by 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 (including the identity of and method of payment for each payee). On December 1, 2007, the Costs of Issuance Account shall be closed and any moneys held therein shall be paid over to the Board free from the lien of the Indenture.

Moneys in the Costs of Issuance Account shall be invested as described below under "Investment of Funds." The Board may, and to the extent required for payments from the Costs of Issuance Account shall, direct the Trustee in writing to sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Costs of Issuance Account. Earnings received on moneys or securities in the Costs of Issuance Account shall be retained therein and applied to the purposes for which moneys in the Costs of Issuance Account are otherwise held.

Establishment and Application of Debt Service Fund and Accounts

The Debt Service Fund is established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture. Within the Debt Service Fund are established the Pledged Revenues Account, consisting of the Deposit Sub-Account and the Payment Sub-Account, which Payment Sub-Account shall further consist of (i) the Interest Deposit Sub-Account, (ii) the PPRT Revenues Sub-Account, and (iii) the Intergovernmental

Agreement Revenues Sub-Account; the Pledged Taxes Account, the Bond Payment Account, consisting of the Interest Sub-Account and the Principal Sub-Account; and the SWAP Payment Account. Moneys will be deposited in the above accounts and paid out from time to time by the Trustee as provided in the Indenture.

Investment of Funds

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and the Costs of Issuance Account 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. All investment income shall be retained in the Fund or Account to which the investment is credited from which such income is derived.

All investments made under the Indenture shall be consistent with the expectations expressed in the Tax Agreement.

Valuation and Sale of Investments

Investment Securities in any Fund, Account or Sub-Account created under the provisions of 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 Indenture.

The value of Investment Securities shall mean the fair market value thereof, provided, however, that all SLG's 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. 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 (without regard to any Bond Insurance Policy), 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 Revenues

Pursuant to the Intergovernmental Agreement, the Chief Financial Officer of the City of Chicago has executed and delivered a written direction to each of the County Collectors to deposit all collections of the Intergovernmental Agreement Revenues in each Year, directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. So long as any of the Bonds remain Outstanding, the Board will not agree to amend or supplement the Intergovernmental Agreement so as to authorized the modification or amendment of such direction, except for such modifications or amendments as may be (i) necessitated by changes in State law or (ii) necessary in connection with the issuance of Additional Bonds; *provided*, that no such modification or amendment shall provide for the deposit with the Escrow Agent of less than all of the Intergovernmental Agreement Revenues to be paid to the Board during any Year.

The Board has directed the Department of Revenue of the State to deposit all Personal Property Replacement Tax Revenues to be allocated and paid to the Board in each year directly with the Escrow Agent for application in accordance with the provisions of the Escrow Agreement. As long as any of the Bonds remain Outstanding, the Board will not modify or

amend such direction, except for such modifications or amendments as may be (i) necessitated by changes in State law or procedures with respect to the allocation and distribution of the Personal Property Replacement Tax Revenues or (ii) necessary in connection with the issuance of Additional Bonds; provided that no such modification or amendment shall provide for the deposit with the Escrow Agent of less than all of the Personal Property Replacement Tax Revenues to be allocated and paid to the Board during the Year.

Pursuant to Section 15(e) of the Act, the Board covenants, so long as there are any Outstanding Bonds, to provide for, collect and apply the Pledged Revenues to the payment of the Bonds and the provision of not less than an additional .25 times debt service on the Bonds.

Covenants Regarding Pledged Taxes

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. 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 Indenture, the Board shall direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement will be filed with (i) the County Clerks, in a timely manner to effect such abatement and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

As long as there are any Outstanding Bonds, the Board and its officers will comply with all present and future applicable laws in order to assure that the Pledged Taxes may be levied and extended and collected and deposited to the Pledged Taxes Account as described above.

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

Accounts and Reports

The Board 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 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":

1. If a default shall occur in the due and punctual payment of interest on any Bond when and as such interest shall become due and payable;

2. If a default shall occur in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise;

3. If a default shall occur in the performance or observance by the Board of any other of the covenants, agreements or conditions in the Indenture or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds, provided that if the nature of the default is such that it cannot be cured within the 60-day period but can be cured within a longer period, no event of default shall occur if the Board institutes corrective action within the 60-day period and diligently pursues such action until the default is corrected (provided such default is correctable); or

4. If the Board shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

Proceedings Brought By Trustee

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 contained in the Indenture, or in aid of the execution of any power herein granted, or for an accounting against the Board as if the Board were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture or enforcing any of the rights on interests of the Owner of the Bonds under the Bonds 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 a 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.

Upon commencing any suit at law or in equity or upon commencement of other judicial proceedings by the Trustee to enforce any right under the Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

Regardless of the happening of an Event of Default, the Trustee shall have power, but unless requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to institute and maintain such suits and proceedings as may be necessary or expedient to prevent any impairment of the security under the Indenture and to preserve or protect its interests and the interest of the Owners.

During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, funds, Pledged Revenues and Pledged Taxes and the income therefrom (other than (i) amounts paid under the Bond Insurance Policy, which shall be applied only to pay scheduled principal of and interest on the Bonds and (ii) any amounts not constituting part of the Trust Estate) as follows and in the following order:

1. To the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it; and

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

First: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available 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.

3. To the payment of Swap Payments.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of the Board, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners shall be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Whenever moneys are to be applied pursuant to these provisions, the Trustee may, in its discretion, establish and maintain a reserve for future fees and expenses, and may apply moneys to be distributed at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix a date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates, and for which moneys are available, shall cease to accrue. The Trustee shall also select a Record Date for such payment date. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any moneys and of the fixing of any such Record Date and payment date, and shall not be required to

make payment to the holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Restrictions on Bondholders' 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, as provided in the Indenture, 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.

Nothing in the Indenture or in the Bonds contained shall affect or impair the general obligation of the Board to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Owners thereof, or affect or impair the right of action of any Owner to enforce such payment of its Bond from the sources provided herein.

Remedies Conferred By The Act

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

No Remedy Exclusive

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each remedy 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.

Rights and Remedies of Bond Insurer

Subject to the provisions of the Indenture, upon the occurrence and continuance of an Event of Default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the Bonds or the Trustee for the benefit of the Owners of the Bonds under the Indenture, except that the Owners of the Bonds shall retain the right to exercise all rights related to the enforcement of the tax covenants of the Board contained in the Indenture.

Waiver

No delay or omission of the Trustee or any Owner to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein.

Subject to the rights and remedies of the Bond Insurer, 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 below 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 provided in the Indenture.

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 and the Bond Insurer.

If no appointment of a Trustee shall be made by the Board within 60 days following such resignation or renewal pursuant to the foregoing provisions of the Indenture, the Trustee or the Owner of any Bond Outstanding hereunder may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed under the provisions of the Indenture in succession to the Trustee shall be a bank, trust company or national banking association, doing business and having a corporate trust office in the State of Illinois, 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 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 covered by the Indenture and subject to the terms and provisions contained in the Indenture, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding 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 to the Indenture; *provided, however*, that nothing contained in the Indenture shall permit or 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 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 provided in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof shall be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in

form satisfactory to the Trustee, shall be mailed to the Owners, but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when (a) there shall have been filed with the Trustee (i) the written consents of the Owners of the required aggregate principal amount of Outstanding Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee, and (b) a notice shall have been delivered as hereinafter provided. 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 described below 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 these provisions 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 these provisions, 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 these provisions, 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 these provisions 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 Trustee without its written consent thereto.

Notwithstanding the foregoing, as long as the Bond Insurance Policy is in full force and effect and the Bond Insurer has not failed to perform any of its obligations thereunder, the Bond Insurer shall be deemed the Owner of the Bonds for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture.

Defeasance

If the Board shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, then the pledge of the Trust Estate under the Indenture and all covenants, agreements and other obligations of the Board to the Owners shall thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, shall provide an accounting of the assets managed by the Trustee to be prepared and filed with the Board for any year or part thereof requested, and shall execute and deliver to the Board all such instruments as may be desirable to evidence such discharge and satisfaction, and the Paying Agent shall pay over or deliver to the Board all moneys and securities held by it pursuant to the Indenture which are not required for the payment of Bonds not previously surrendered for such payment or redemption. If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Board to the Owners of such Bonds and to the Trustee shall thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date shall be deemed to have been paid within the meaning of and with the effect expressed 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. The Defeasance Obligations and moneys deposited with the Trustee pursuant to the Indenture shall be held in trust for the payment of the principal or Redemption Price, if applicable, and interest on 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.

The Defeasance Obligations (or any portion thereof) held for the payment of the principal and Redemption Price of and interest on said Bonds pursuant to 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.

Amounts deposited with the Trustee for the payment of the principal of and interest on any Bonds deemed to be paid pursuant to these provisions, if so directed by the Board, shall be applied by the Trustee to the purchase of such Bonds. Bonds for which a redemption date has been established may be purchased on or prior to the 45th day preceding the redemption date. The principal amount of Bonds to be redeemed shall be reduced by the principal amount of Bonds so purchased. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. All such purchases shall be made at prices not exceeding the applicable principal amount or Redemption Price established pursuant to these provisions, plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. No purchase shall be made by the Trustee pursuant to these provisions if such purchase would result in the Trustee holding less than the moneys and Defeasance Obligations required to be held for the payment of all other Bonds deemed to be paid pursuant to these provisions.

The Board may purchase with any available funds any Bonds deemed to be paid pursuant to these provisions in accordance with these provisions. Bonds for which a redemption date has been established may be purchased by the Board on or prior to the 45th day preceding the redemption date. On or prior to the 45th day preceding the redemption date the Board shall give written notice to the Trustee of its intention to surrender such Bonds on the redemption date. The Trustee shall proceed to call for redemption the remainder of the Bonds due on the redemption date and shall pay to the Board on the redemption date the Redemption Price of and interest on such Bonds upon surrender of such Bonds to the Trustee. Bonds which mature on a single future date may be purchased at any time prior to the maturity date. The Trustee shall pay

to the Board the principal amount of and interest on such Bonds upon surrender of such Bonds on the maturity date.

Any time after any Bonds are deemed to be paid pursuant to these provisions, the Board shall not at any time permit any of the proceeds of the Bonds or any other funds of the Board to be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Bond to be an "arbitrage bond" as defined in the Code and Regulations.

Each Fiduciary shall continue to be entitled to reasonable compensation for all services rendered under the Indenture, notwithstanding that any Bonds are deemed to be paid pursuant to these provisions. Such compensation shall be paid by the Board from lawfully available funds and no Fiduciary shall have a claim against the Trust Estate for such compensation except as may be expressly provided in the Indenture.

Any moneys held by the Trustee or any Paying Agent in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee or such Paying Agent at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee or such Paying Agent after the said date when such Bonds become due and payable, shall, at the written request of the Board, be repaid by the Trustee or such Paying Agent to the Board, as its absolute property and free from trust, and the Trustee or such Paying Agent shall thereupon be released and discharged with respect thereto and the Owners of such Bonds shall look only to the Board for the payment of such Bonds.

In the event that the principal of and/or interest on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain Outstanding for all purposes, shall not be deemed to be defeased or otherwise satisfied and shall not be considered paid by the Board, and the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Board to the Owners of the Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such Owners.

APPENDIX C

INFORMATION CONCERNING PERSONAL PROPERTY REPLACEMENT TAX REVENUES

Description of Personal Property Replacement Taxes. Through December 31, 1997, the Personal Property Replacement Taxes were comprised of three taxes as described in the following table:

TYPE OF TAX	RATE[1]
Additional income tax on corporations	2.5% of net income[2]
Additional income tax on partnerships, trusts and Subchapter S corporations	1.5% of net income[2]
Tax on invested capital for public utilities providing gas, telecommunications, electric and water services	0.8% of invested capital[3]

(1) Beginning on July 1, 1984 certain taxpayers who pay Personal Property Replacement Taxes were allowed to claim a credit of 0.5 percent of the basis of certain qualified property placed in service during that year. On July 1, 1986, the credit was increased to a maximum of 1 percent for businesses whose employment in the State of Illinois (the "State") increases. This credit expired on December 31, 2003.

(2) Determined in accordance with the Illinois Income Tax Act.

(3) Determined in accordance with applicable State taxes on the gross receipts of such public utilities. See "– Recent Changes in Personal Property Replacement Taxes" below for a discussion of enacted amendments relating to the tax on invested capital of telecommunications and electric utilities.

The income tax component of the Personal Property Replacement Taxes is paid on an estimated basis with the corporation's regular state income tax quarterly payments. A final return is due after the end of the corporation's taxable year. The tax on invested capital of utilities applied to business entities that sell or provide electric, gas, water or telecommunications services in the State, except for municipal and cooperative corporations. The invested capital tax is paid with estimated payments by the fifteenth day of March, June, September and December, with a final return due by the fifteenth day of March following the tax year.

Changes in Personal Property Replacement Taxes. Effective January 1, 1998, Public Act 90-154 repealed the tax on the invested capital on telecommunications utilities and provides instead for the imposition of an infrastructure maintenance fee upon all telecommunications retailers in the State. This fee imposed is equal to .5% of all gross charges imposed by the retailer for telecommunications, other than wireless telecommunications, originating or received in the State. This fee is to be paid monthly by telecommunications retailers to the State. Public Act 90-

154 states its intent that this statewide infrastructure maintenance fee will be a replacement for the tax currently imposed on the invested capital of telecommunications utilities.

Effective January 1, 1998, Public Act 90-561 repealed the tax on the invested capital of electric utilities (other than electric co-operatives) and provides instead for the imposition of a tax on the distribution of electricity. This tax is imposed on electric utilities on a per kilowatt basis, with the rates varying with the amount of electricity distributed. This tax is to be paid quarterly by electric utilities to the State. In any given year, the total statewide collection of the tax cannot exceed $145.3 million plus the lesser of CPI and 5%. Public Act 90-561 states its intent that this new tax on the distribution of electricity will be a replacement for the tax currently imposed on invested capital of electric utilities.

The telecommunications infrastructure maintenance fee and the tax on the distribution of electricity described above are each to be collected and allocated to the Board and other taxing districts in accordance with existing allocation formulas for the Personal Property Replacement Taxes. See "SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Allocation and Payment."

Future Legislative Action. Set forth above and under "SECURITY FOR THE BONDS – Personal Property Replacement Taxes" is a description of the existing provisions of the State Revenue Sharing Act relating to the application, collection, allocation, appropriation and payment of the Personal Property Replacement Taxes and of enacted amendments relating to the invested capital tax on telecommunications and electric utilities. These provisions could be further amended, modified or repealed by future action of the Illinois General Assembly. Such amendment, modification or repeal could have a material effect on the amount and/or the timing of receipt of the Personal Property Replacement Taxes collected and allocated by the State or on the amount and/or the timing of receipt of the Personal Property Replacement Taxes to be received by the Board and deposited with the Escrow Agent. See "SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Prior Statutory Claims."

Personal Property Replacement Tax Statistical Tables

The following is the schedule of Personal Property Replacement Taxes allocated by the State (including allocations to the Board) for the calendar years 2001 through June 30, 2007. For a discussion of the prior statutory claim on Personal Property Replacement Taxes, see "SECURITY FOR THE BONDS – Personal Property Replacement Taxes – Series 2007B Bonds – Prior Statutory Claims."

Statewide Replacement Tax Data [1]

Calendar Year	Invested Capital Tax Collections	Business Income Tax Collections (Net of Refunds)	Net Adjustments [2]	Total Replacement Tax Allocations to Local Govts.	Board Percent [3]
2001	$253,904,237	$682,900,875	$26,877,270	$963,682,382	14.0%
2002	207,501,611	568,278,611	(5,993,471)	769,786,751	14.0%
2003	199,943,717	579,537,177	(1,991,328)	777,479,566	14.0%
2004	227,782,071	601,155,429	41,328,938	870,266,438	14.0%
2005	213,905,309	870,816,416	111,548,531	1,196,270,258	14.0%
2006[4]	170,054,342	778,958,695	43,752,039	992,765,076	14.0%

(1) Source: Illinois Department of Revenue

(2) Consists of adjustments for administrative rules, interest earned on deposits, interfund transfers, timing of collections and payments and related items.

(3) Percentage rounded.

(4) Replacement tax collection for January 1, 2006 – August 31, 2006 only.

Board Replacement Tax Data [1]

Calendar Year	Statutory Claims [1] Allocations To Board	Allocations for Prior Debt Service [2]	Allocations for Pension Obligations [3]	Remainder after Allocations for Statutory Claims	Pro-Forma Pledged Revenues [4]	Fiscal Year Recorded Revenues
2001	$134,934,126	--	--	$134,934,126	$134,934,126	$137,744,000
2002	107,800,973	--	--	107,800,973	107,800,973	114,313,000
2003	108,879,677	--	--	108,879,677	108,879,677	105,959,557
2004	121,872,155	--	--	121,872,155	121,872,155	120,427,424
2005	167,526,744	--	--	167,526,744	167,526,744	145,724,052
2006	176,409,098	--	--	176,409,098	176,409,098	184,699,266

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(1) Source: Board of Education of the City of Chicago.

(2) All Board's debt for which there was a replacement tax obligation was retired by the end of 1995.

(3) The amount of the Statutory Claim for pension and retirement purposes has varied over the past 10 years, primarily as a result of (a) increases in required employer contributions funded from property taxes as a consequence of increased payroll and employee contributions (1985-1990 and 1994-1995), (b) a temporary suspension of the statutory requirement that property taxes be applied to pension and retirement purposes (1991-1993), and (c) the suspension of the statutory requirement that, property taxes be applied to pension and retirement purposes (1996 and all years thereafter).

(4) Reflects reductions to pay applicable Statutory Claims. All Statutory Claims with respect to debt service have been paid and, under the Statue Revenue Sharing Act, no future Statutory Claims with respect to debt service will arise or need to be paid.

Following is the schedule of Personal Property Replacement Taxes received by the Board from January 2001 through August 31, 2006.

Monthly Summary of the Total Allocations to the Board of Education [1]

Calendar Year	January	March	April	May	July	August	October	December	Total
2001	$19,256,949	$9,853,297	$25,603,017	$18,352,614	$25,636,258	$3,148,346	$24,440,723	$8,642,922	$134,934,126
2002	16,842,147	6,478,868	25,630,253	12,181,929	16,948,258	2,701,807	19,106,650	7,911,061	107,800,973
2003	14,730,281	6,208,549	25,757,619	12,117,348	17,426,241	1,749,411	16,757,860	14,132,368	108,879,677
2004	19,906,464	8,669,066	26,475,210	13,494,987	19,241,877	8,379,867	19,602,544	16,676,184	132,446,209
2005	21,166,525	11,653,412	33,977,017	18,816,369	26,026,179	20,285,121	27,393,274	8,208,848	167,526,745
2006	24,520,445	8,553,752	38,608,787	24,789,508	32,340,532	10,213,846	28,762,938	8,619,290	176,409,098

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(1) Source: Board of Education of the City of Chicago

APPENDIX D

Series 2007B

FORM OF OPINIONS OF CO-BOND COUNSEL

September 5, 2007

The Board of Education of the City of Chicago
Chicago, Illinois

Dear Members:

We have examined a record of proceedings relating to the issuance of $197,765,000 principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007B (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, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, Resolution No. 07-0725-RS4, adopted by the Board on July 25, 2007 (the "Bond Resolution") and a Trust Indenture dated as of September 1, 2007 (the "Indenture") by and between the Board and Amalgamated Bank of Chicago, as trustee (the "Trustee"). 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 issuable in the form of fully registered bonds in the denominations of $5,000 and any integral multiple thereof. The Bonds delivered on original issuance are dated September 5, 2007. The Bonds bear interest from their date at the rate of five percentum (5%) per annum payable on December 1, 2007 and semiannually thereafter on June 1 and December 1 of each year. The Bonds mature on December 1, in each of the following years in the respective principal amount set opposite each such year in the following table:

Year	Principal Amount
2017	$15,265,000
2018	16,035,000
2019	16,835,000
2020	25,155,000
2021	26,410,000
2022	27,735,000
2023	34,310,000
2024	36,020,000

The Bonds maturing on or after December 1, 2019 are subject to redemption prior to maturity at the option of the Board, from such maturities as the Board shall determine and by lot within a single maturity, on December 1, 2017 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed.

The Bonds are issued as "alternate bonds" under the Local Government Debt Reform Act for the purpose of refunding bonds of the Board that were issued for the purpose of raising moneys to construct, acquire and equip school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the "School District").

The Board and the City of Chicago (the "City") have entered into an Intergovernmental Agreement dated October 1, 1997 (the "Intergovernmental Agreement") pursuant to which the City has levied ad valorem taxes against all taxable property in the City without limitation as to rate or amount for the purpose of providing Intergovernmental Agreement Revenues to pay the principal of and interest on certain alternate bonds of the Board, including the Bonds.

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 Revenues, the Pledged Taxes and the other moneys, securities and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged Revenues consist of the Intergovernmental Agreement Revenues and the Pledged PPRT Revenues. The Pledged PPRT Revenues consist of the Personal Property Replacement Tax Revenues received by the Board in any year from the Personal Property Tax Replacement Fund of the State of Illinois pursuant to Section 12 of the State Revenue Sharing Act, subject to (i) the prior use of Personal Property Replacement Tax Revenues for the payment of certain pension and retirement obligations constituting "Statutory Claims" as defined in the Indenture; and (ii) the prior and priority pledge of the Personal Property Replacement Tax Revenues to the payment of the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 and the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, of the Board. The pledge of the Pledged PPRT Revenues is on a parity with the pledge of Personal Property Replacement Tax Revenues as security for the payment of

certain other outstanding alternate bonds of the Board. The pledge of the Intergovernmental Agreement Revenues is on a parity with the pledge of the Intergovernmental Agreement Revenues as security for the payment of certain other outstanding alternate bonds of the Bonds. The Pledged Taxes consist of 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. The Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The Board has covenanted in the Indenture to comply with these requirements.

Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the Bond 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,

LG/be

Series 2007C

September 5, 2007

The Board of Education of the City of Chicago
Chicago, Illinois

Dear Members:

We have examined a record of proceedings relating to the issuance of $6,870,000 principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007C (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, 105 Illinois Compiled Statutes 5, and the Local Government Debt Reform Act, 30 Illinois Compiled Statutes 350, Resolution No. 06-0628-RS78, adopted by the Board on June 28, 2006 (the "2006 Authorization"), as supplemented by Resolution No. 07-0725-RS4, adopted by the Board on July 25, 2007 (the "Supplemental Resolution" and together with the 2006 Authorization, the "Bond Resolution") and a Trust Indenture dated as of September 1, 2007 (the "Indenture") by and between the Board and Amalgamated Bank of Chicago, as trustee (the "Trustee"). 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 issuable in the form of fully registered bonds in the denominations of $5,000 and any integral multiple thereof. The Bonds delivered on original issuance are dated September 5, 2007. The Bonds mature on December 1, in each of the following years in the respective principal amount set opposite each such year in the following table, and the Bonds maturing in each such year bear interest from their date payable on December 1, 2007 and semiannually thereafter on June 1 and December 1 in each year, at the respective rate of interest per annum set forth opposite such year:

Year	Principal Amount	Interest Rate
2008	$ 295,000	4.000%
2009	305,000	4.000
2010	320,000	4.000
2011	330,000	4.000
2012	345,000	4.000
2013	360,000	4.000
2014	375,000	4.000
2015	390,000	5.000
2016	410,000	5.000
2017	405,000	4.125
2018	415,000	4.125
2019	435,000	4.250
2020	455,000	4.250
2021	475,000	4.375
2024	1,555,000	4.500

The Bonds maturing on or after December 1, 2018 are subject to redemption prior to maturity at the option of the Board, from such maturities as the Board shall determine and by lot

within a single maturity, on December 1, 2017 and on any date thereafter, at a redemption price equal to the principal amount thereof to be redeemed.

The Bonds maturing on December 1, 2024 are term bonds subject to mandatory redemption at par and without premium, in part and by lot, by the application of sinking fund installments in accordance with the Indenture, on December 1 of the following years and in the following principal amounts:

Year	Principal Amount
2022	$495,000
2023	520,000

The Bonds are issued as "alternate bonds" under the Local Government Debt Reform Act for the purpose of refunding bonds of the Board that were issued for the purpose of raising moneys to construct, acquire and equip school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the "School District").

The Board and the City of Chicago (the "City") have entered into an Intergovernmental Agreement dated October 1, 1997 (the "Intergovernmental Agreement") pursuant to which the City has levied ad valorem taxes against all taxable property in the City without limitation as to rate or amount for the purpose of providing Intergovernmental Agreement Revenues to pay the principal of and interest on certain alternate bonds of the Board, including the Bonds.

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 Revenues, the Pledged Taxes and the other moneys, securities

and funds held thereunder, subject to the application thereof to the purposes permitted by the Indenture. The Pledged Revenues consist of the Intergovernmental Agreement Revenues and the Pledged PPRT Revenues. The Pledged PPRT Revenues consist of the Personal Property Replacement Tax Revenues received by the Board in any year from the Personal Property Tax Replacement Fund of the State of Illinois pursuant to Section 12 of the State Revenue Sharing Act, subject to (i) the prior use of Personal Property Replacement Tax Revenues for the payment of certain pension and retirement obligations constituting "Statutory Claims" as defined in the Indenture; and (ii) the prior and priority pledge of the Personal Property Replacement Tax Revenues to the payment of the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1996 and the Unlimited Tax General Obligation Bonds (Dedicated Tax Revenues), Series 1997, of the Board. The pledge of the Pledged PPRT Revenues is on a parity with the pledge of Personal Property Replacement Tax Revenues as security for the payment of certain other outstanding alternate bonds of the Board. The pledge of the Intergovernmental Agreement Revenues is on a parity with the pledge of the Intergovernmental Agreement Revenues as security for the payment of certain other outstanding alternate bonds of the Bonds. The Pledged Taxes consist of 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. The Bonds are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Bonds is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Bonds is includable in corporate earnings and profits and therefore must be taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Bonds. These requirements relate to the use and investment of the proceeds of the Bonds, the payment of certain amounts to the United States, the security and source of payment of the Bonds and the use of the property financed with the proceeds of the Bonds. The Board has covenanted in the Indenture to comply with these requirements.

Interest on the Bonds is not exempt from Illinois income taxes.

In rendering the foregoing opinion, we advise that the enforceability (but not the validity or binding effect) of the Bonds, the Bond 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,

LG/be

APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

SPECIMEN

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APPENDIX F
GENERAL OBLIGATION BONDS
TO BE REFUNDED BY THE BONDS

BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2007B
Summary of Bonds Refunded

Issue	Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP
Series 1997A	SERIALS	12/01/2017	5.400%	$15,240,000.00	12/01/2007	102.000%	167501SX4
	SERIALS	12/01/2018	5.250	16,065,000.00	12/01/2007	102.000	167501SY2
	SERIALS	12/01/2019	5.250	16,910,000.00	12/01/2007	102.000	167501SZ9
	TERM	12/01/2022	5.250	79,875,000.00	12/01/2007	102.000	167501TC9
	TERM2	12/01/2027	5.250	71,135,000.00	12/01/2007	102.000	167501TH8
				$199,225,000.00			

BOARD OF EDUCATION OF THE
CITY OF CHICAGO
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2007C
Summary of Bonds Refunded

Issue	Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price	CUSIP
Series 1997	SERIALS	12/01/2007	6.250%	$6,700,000.00			167501RN7
				$6,700,000.00			

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RICHARD M. DALEY, MAYOR

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