

*In the opinion of Perkins Coie LLP and Greene and Letts, Co-Bond Counsel to the Board of Education of the City of Chicago (the "Board"), subject to compliance with certain covenants made by the Board to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended, under present law, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Bonds will be taken into account in computing the corporate alternative minimum tax for certain corporations. Interest on the Bonds is not exempt from income taxes imposed by the State of Illinois. See the caption "TAX EXEMPTION" herein regarding a description of other tax considerations.*

**\$464,655,000**



**BOARD OF EDUCATION OF THE  
CITY OF CHICAGO  
Unlimited Tax General Obligation Refunding Bonds  
(Dedicated Revenues),  
Series 2008C**



**Dated: Date of Issuance**

**Due: December 1, as set forth on the inside cover**

**This Official Statement contains information relating to the Board and its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C (the "Bonds").**

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

Interest on the Bonds will be payable on each June 1 and December 1, commencing June 1, 2008. Principal of, redemption premium, if any, and interest on the Bonds will be paid by the Trustee, as trustee, bond registrar and paying agent for the Bonds, to DTC, which in turn will remit such payments to its participants for subsequent distribution to the beneficial owners of the Bonds.

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

The proceeds of the Bonds, together with the Board Deposit (as defined herein), will be used to (i) currently refund all of the Board's outstanding Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-1 (the "Series 2003B-1 Bonds"), Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-2 (the "Series 2003B-2 Bonds") and Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-3 (the "Series 2003B-3 Bonds" and together with the Series 2003B-1 Bonds and Series 2003B-2 Bonds, the "Series 2003B Bonds") and all of the Board's outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-1 (the "Series 2004B-1 Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-2 (the "Series 2004B-2 Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-3 (the "Series 2004B-3 Bonds"), and Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-4 (the "Series 2004B-4 Bonds" and together with the Series 2004B-1 Bonds, Series 2004B-2 Bonds and Series 2004B-3 Bonds, the "Series 2004B Bonds"); and (ii) pay costs of issuance of the Bonds (including the Underwriters' discount and bond insurance premium). See "PLAN OF FINANCE," and "ESTIMATED SOURCES AND USES OF FUNDS."

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

**The maturities, amounts, interest rates and yields of the Bonds are set forth on the inside cover.**

The Bonds are being offered when, as and if issued and received by the Underwriters, subject to the delivery of the approving legal opinion of Perkins Coie LLP, Chicago, Illinois and Greene and Letts, 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, Shefsky & Froelich, Ltd., Chicago, Illinois; and for the Underwriters by their Co-Counsel, Dykema Gossett PLLC, Chicago, Illinois, and Sanchez Daniels & Hoffman LLP, Chicago, Illinois. Delivery of the Bonds is expected to be made through the facilities of DTC in New York, New York, on or about May 1, 2008.

The scheduled payment of principal of and interest on the Bonds maturing on December 1 of the years 2027 and 2032 (the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc.



**Lehman Brothers  
Citi**

**Cabrera Capital Markets, LLC**

**SBK-Brooks Investment Corp.**

**William Blair & Company**

**\$464,655,000**  
**BOARD OF EDUCATION OF THE**  
**CITY OF CHICAGO**  
**Unlimited Tax General Obligation Refunding Bonds**  
**(Dedicated Revenues),**  
**Series 2008C**

**MATURITIES, AMOUNTS, INTEREST RATES AND PRICES/YIELDS**

<u>Maturity</u> <u>December 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP</u> <sup>1</sup>
2017	\$ 7,420,000	5.000%	3.92%	167505ER3
2018	\$ 8,815,000	4.250%	4.04%	167505ES1
2019	\$ 9,615,000	5.000%	4.21%	167505ET9
2020	\$ 10,120,000	5.000%	4.34%	167505EU6
2021	\$ 10,660,000	5.000%	4.44%	167505EV4
2022	\$ 41,535,000	5.000%	4.52%	167505EW2
2023	\$ 43,720,000	5.250%	4.58%	167505EX0
2024	\$ 46,145,000	5.250%	4.66%	167505EY8
2025	\$ 48,595,000	5.250%	4.71%	167505EZ5
2026	\$ 51,265,000	5.250%	4.76%	167505FA9
2027*	\$ 80,365,000	5.000%	4.63%	167505FB7
2028	\$ 20,940,000	5.000%	4.88%	167505FC5
2029	\$ 22,040,000	5.000%	4.92%	167505FD3
2032*	\$ 63,420,000	5.000%	4.77%	167505FE1

\*Insured Bonds

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<sup>1</sup> Copyright 2008, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc.

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

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

This Official Statement should be considered in its entirety. All references herein to laws, agreements and documents are qualified in their entirety by reference to the definitive forms thereof, and all references to the Bonds are further qualified by reference to the information with respect thereto contained in the Indenture for the Bonds. A copy of the Indenture for the Bonds is available for inspection at the offices of the Board and the Trustee. 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. 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 COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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.

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as assigned thereto in “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

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

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

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**Rufus Williams**  
*President*

**Clare Muñana**  
*Vice President*

**Norman R. Bobins**  
**Dr. Tariq Butt**  
**Alberto A. Carrero, Jr.**  
**Peggy A. Davis**  
**Roxanne M. Ward**

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**Arne Duncan**  
*Chief Executive Officer*

**Barbara Eason-Watkins**  
*Chief Education Officer*

**M. Hill Hammock**  
*Chief Administrative Officer*  
*Chief Operating Officer*

**Pedro Martinez**  
*Chief Financial Officer*

**Heather A. Obora**  
*Chief Purchasing Officer*

**Patrick J. Rocks**  
*General Counsel*

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**Perkins Coie LLP**  
**Greene and Letts**  
*Co-Bond Counsel*

**A.C. Advisory, Inc.**  
*Financial Advisor*

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**\$464,655,000**  
**BOARD OF EDUCATION OF THE**  
**CITY OF CHICAGO**  
**Unlimited Tax General Obligation Refunding Bonds**  
**(Dedicated Revenues),**  
**Series 2008C**

**INTRODUCTION**

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 \$464,655,000 of its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C (the “Bonds” or the “Series 2008C Bonds”).

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as assigned thereto in “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

The proceeds from the sale of the Bonds, together with certain moneys of the Board (the “Board Deposit”), will be used to (i) currently refund all of the Board’s outstanding Series 2003B Bonds (as defined on the cover page of this Official Statement) and all of the Board’s outstanding Series 2004B Bonds (as defined on the cover page of this Official Statement) (the Series 2004B Bonds together with the Series 2003B Bonds, are referred to herein as the “Refunded Bonds”); and (ii) pay costs of issuance of the Bonds (including the Underwriters’ discount and bond insurance premium). The Refunded Bonds bear the series designations, are outstanding in the principal amounts and will be redeemed as shown in APPENDIX D – “Description of the Refunded Bonds.” For a description of the Refunded Bonds, see “PLAN OF FINANCE,” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The Series 2003B Bonds were issued pursuant to a Trust Indenture dated as of January 1, 2003 (the “Series 2003B Indenture”) between the Board and The Bank of New York Trust Company, N.A. (the “Series 2003B Trustee”) and the Series 2004B Bonds were issued pursuant to a Trust Indenture dated as of April 1, 2004 (the “Series 2004B Indenture”) between the Board and Amalgamated Bank of Chicago (the “Series 2004B Trustee”).

In addition, as part of the Board’s plan of finance, at the time of issuance of the Bonds, the Board will terminate the Series 2003B Swap Agreements and Series 2004B Swap Agreements (both as hereinafter defined) related to the Refunded Bonds. See “PLAN OF FINANCE” and “BOARD OF EDUCATION OF THE CITY OF CHICAGO – Board’s Interest Rate Swap Agreements.”

The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit. The Bonds are authorized and issued pursuant to the provisions of the School Code of the State of Illinois, as amended (the “School Code”), the Local

Government Debt Reform Act of the State of Illinois, as amended (the “Debt Reform Act”), a resolution adopted by the Board on February 27, 2008 (the “2008 Authorization”) authorizing the issuance of alternate bonds, being general obligation bonds payable from any revenue source as provided by the Debt Reform Act (“Alternate Bonds”), in an aggregate principal amount not to exceed \$1,900,000,000, and Resolution 08-0326-RS1 in respect to the Bonds, adopted by the Board on March 26, 2008, authorizing the issuance of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008, in an aggregate amount not to exceed \$1,425,000,000 (the “Bond Resolution” and, together with the 2008 Authorization, the “Resolutions”).

The Bonds will be issued under a Trust Indenture dated as of May 1, 2008 (the “Indenture”), by and between the Board and The Bank of New York Trust Company, N.A., 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 State Aid Revenues (as defined herein), (ii) to the extent that the Pledged State Aid Revenues are insufficient to pay the debt service on the Bonds, from the *ad valorem* taxes levied by the Board pursuant to the Bond Resolution, against all of the taxable property in the School District (as defined herein), without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the “Pledged Taxes”) and (iii) from all Funds, Accounts and Sub-Accounts pledged pursuant to the Indenture.

The Pledged State Aid Revenues for the Bonds issued under the 2008 Authorization consist of \$225,000,000 of unrestricted General State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code. For additional information, see “SECURITY FOR THE BONDS – General” and “– General State Aid” below. For a discussion of other obligations of the Board payable from the Board’s annual receipt of State Aid Revenues see “Other State Aid Obligations,” below.

The Board expects to issue on or about May 13, 2008 its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A, in the aggregate principal amount of \$262,785,000 (the “Series 2008A Bonds”) and its Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B in the aggregate principal amount of \$240,975,000 (the “Series 2008B Bonds” and together with the Series 2008A Bonds, the “Series 2008A/B Bonds”). When and if issued, the Series 2008B Bonds will be on parity with and will share ratably and equally in the Pledged State Aid Revenues with the Bonds. The Series 2008A Bonds will be payable from revenue sources other than the Pledged State Aid Revenues. The Series 2008A/B Bonds are being issued to refund the Board’s outstanding Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003D in the aggregate principal amount of \$240,975,000 and its outstanding Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2007A in the aggregate principal amount of \$262,785,000.

The scheduled payment of principal of and interest on the Bonds maturing on December 1 of the years 2027 and 2032 (the “Insured Bonds”) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by the Bond Insurer. For additional information, see “BOND INSURANCE.”

## **Prior Alternate Bonds**

The Board has previously issued Alternate Bonds having an aggregate outstanding principal amount of approximately \$4.7 billion to finance its Capital Improvement Program and to refund Alternate Bonds issued for that purpose (the “Prior Alternate Bonds”) and such Prior Alternate Bonds are payable from sources other than the Pledged State Aid Revenues. In the event such other sources are insufficient or not available for the payment of the Prior Alternate Bonds, the Prior Alternate Bonds are payable from ad valorem taxes levied by the Board. See “BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.”

## **THE BONDS**

### **General**

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. The Bonds will be issued only as fully registered bonds in denominations of \$5,000 or integral multiples thereof (the “Authorized Denominations”). The Bonds will bear interest from the date of their original issuance, payable on June 1 and December 1 of each year, commencing June 1, 2008, at the rates set forth on the inside cover page. 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.”

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.

### **Redemption**

**Optional Redemption.** The Bonds maturing on or after December 1, 2019 are subject to redemption prior to maturity, at the option of the Board, from any available funds, on any date on and after December 1, 2018, in whole or in part, and if in part, in any order of maturity

designated by the Board, and if less than an entire maturity, in Authorized Denominations, selected by the Trustee as hereinafter provided, at the redemption price of par plus accrued interest to the date fixed for redemption.

**Mandatory Sinking Fund Redemption.** The Bonds maturing on December 1, 2032, are subject to mandatory sinking fund redemption prior to their maturity at a redemption price equal to the principal amount thereof, plus accrued interest, if any, on December 1 in the respective years and in the respective amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>
2030	\$23,195,000
2031	24,395,000
2032*	15,830,000

\* Final Maturity

At its option, to be exercised on or before the 60th day next preceding any mandatory sinking fund redemption date for the Bonds (or such shorter period as may be acceptable to the Trustee), the Board may (i) deliver to the Trustee for cancellation, Bonds or portions thereof in Authorized Denominations subject to mandatory sinking fund redemption or (ii) receive a credit in respect of its mandatory sinking fund redemption obligation for Bonds or portions thereof in Authorized Denominations which prior to said date have been redeemed (otherwise than through the operation of such mandatory sinking fund redemption) and canceled by the Trustee and not theretofore applied as a credit against any mandatory sinking fund redemption obligation. Each such Bond or portion thereof subject to mandatory sinking fund redemption so delivered or previously redeemed shall be credited against future mandatory sinking fund redemption obligations on Bonds in such order as the Board shall designate, or if no such designation is made, in chronological order, the principal amount of such Bonds to be redeemed by operation of such mandatory redemption to be accordingly reduced.

**General Redemption Terms.** The Board will, at least 60 days prior to any optional redemption date (unless a shorter time period shall be satisfactory to the Trustee), notify the Trustee of such redemption date and of the principal amount and maturity or maturities to be redeemed. Except as set forth below, if less than all of the Bonds are called for optional 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. So long as DTC or its nominee is the registered owner of the Bonds, the particular Bonds or portions thereof to be redeemed will be selected by DTC in such manner as DTC may determine. Whenever the Trustee is required to redeem Bonds pursuant to the mandatory sinking fund provisions of the Indenture, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay the redemption price thereof, plus interest accrued and unpaid to the date fixed for redemption, in accordance with the terms of the Indenture, without further direction from the Board.

When the Trustee receives notice from the Board of its election or direction to optionally redeem Bonds and when the Trustee is required to redeem Bonds pursuant to the mandatory sinking fund provisions of the Indenture, the Trustee will give notice, in the name of the Board, of the redemption of such Bonds, which notice will specify the 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 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, subject to the satisfaction of any conditions described in such notice, 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 registered owners of the Bonds to be redeemed at their addresses as shown on the registration books of the Board maintained by the Trustee, as 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 a registered owner of any Bond or any defect in such notice will not affect the validity of the redemption of any other Bonds to be redeemed as to which proper notice was given.

Notice having been given in the manner described above, the Bonds so called for redemption will become due and payable on the date fixed for redemption at the applicable redemption price (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, will be paid at the redemption price (plus interest accrued and unpaid to such date). If, on the date fixed for redemption, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed (together with interest to such date) are held by the Trustee so as to be available therefore on said date and if notice of redemption has been given as described above, then, from and after the date fixed for redemption, interest will cease to accrue and become payable. If said moneys are not so available on the date fixed for redemption, interest will continue to accrue until paid at the same rate as if such Bonds had not been called for redemption.

### **Bond Registration and Transfers**

The Bonds initially are registered through a book-entry only system operated by The Depository Trust Company, New York, New York (“DTC”). Details of payments of the Bonds and the book-entry only system are described below under “THE BONDS—Book-Entry Only System.” Except as described under “THE BONDS—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 of, premium, if any, and interest on the Bonds, and to exercise voting rights and (ii) the records of DTC and, if such beneficial owner is not a Participant, such beneficial owner’s Participant, to evidence its beneficial ownership of the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, references herein to Bondholders or registered owners of such Bonds mean DTC or its nominee and do not mean the beneficial owners of such Bonds.

Subject to the limitations described below, the Bonds are transferable upon surrender thereof at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Trustee and duly executed by the Bondholder or such Bondholder’s attorney duly authorized in writing. Subject to the limitations described below, any Bond may be exchanged at the principal corporate trust office of the Trustee upon surrender thereof, together with an assignment duly executed by the registered owner thereof or such registered owner’s attorney in such form and with guarantee of signature as shall be satisfactory to the Trustee for an equal aggregate principal amount of Bonds of like date and tenor of any Authorized Denomination as the Bonds surrendered for exchange bearing numbers not contemporaneously outstanding. The Trustee and the Board may charge a fee sufficient to cover any tax, fee or other governmental charge in connection with any exchange or transfer of any Bond (except in connection with any partial redemption thereof).

### **Book-Entry Only System**

**General.** *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 the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”).



DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Finance Clearing Corporation, all of which are registered clearing agencies. DTC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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 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, or, 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 payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Board or the Trustee, as applicable, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, 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 is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is 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, if a successor securities depository is not obtained, certificates for the Bonds are required to be printed and delivered.

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

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

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

## **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 owner of the Insured Bonds for purposes of consenting to any supplements or amendments to the Indenture as may be required under the Indenture and granting other approvals, consents, notices, directions and waivers on behalf of the Bondholders with respect to matters that require Bondholder approval, consent or waiver under the Indenture.

## **PLAN OF FINANCE**

### **Use of Proceeds of the Bonds**

The proceeds from the sale of the Bonds together with the Board Deposit will be used to (i) refund the Refunded Bonds, and (ii) pay the costs of issuance of the Bonds (including the Underwriters' discount and the bond insurance premium). See "ESTIMATED SOURCES AND USES OF FUNDS".

### **Refunding of the Refunded Bonds**

To provide for the refunding of the Refunded Bonds, certain of the net proceeds of the Bonds together with a portion of the Board Deposit will be deposited into separate escrow accounts to be established with the Series 2003B Trustee and the Series 2004B Trustee to provide for the defeasance and redemption of the Series 2003B Bonds and Series 2004B Bonds, respectively (the "Refunding Escrow Accounts"). Portions of the funds deposited into the Refunding Escrow Accounts will be used to purchase U.S. Treasury Obligations (the "Government Securities"), the principal of which, together with interest to be earned thereon and initial uninvested cash balances, will be sufficient to pay (i) the interest on the Refunded Bonds when due and (ii) the redemption price of the Refunded Bonds on the applicable redemption dates as set forth in APPENDIX D. The Refunded Bonds will be callable at the price of 100% of the principal amount thereof.

Neither the cash on deposit in the Refunding Escrow Accounts nor the maturing principal of the Government Securities purchased to refund the Refunded Bonds or the interest earned thereon will serve as security or be available for the payment of the principal of or interest on the Bonds.

The accuracy and adequacy of (i) the arithmetical computations of the maturing principal of and interest on the Government Securities to pay, when due, the redemption price of and interest on the Refunded Bonds as described above and (ii) the mathematical computations supporting the conclusion of Co-Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, will be verified by Causey Demgen & Moore Inc., independent certified public accountants, based upon information supplied by the Board in connection with such matters.

**Defeasance of Refunded Bonds**

Upon the deposit of the cash and Government Securities into the respective Refunding Escrow Accounts as described above, the pledge of the respective trust estates established under the Series 2003B Indenture and the Series 2004B Indenture, including the pledges of General State Aid payments thereunder, will be discharged and satisfied and the Refunded Bonds will no longer be entitled to any lien or security under either of said Indentures.

**Termination of Existing Swap Agreements**

On or prior to the date of issuance of the Bonds, the Board will cause the termination of the Series 2003B Swap Agreements and the Series 2004B Swap Agreements related to the Refunded Bonds. Any net termination payments required to be made by the Board pursuant to such termination will be paid from lawfully available funds of the Board other than Bond proceeds or Pledged State Aid Revenues. The Board is not entering into any Swap Agreements in connection with the issuance of the Bonds.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of funds in connection with the issuance of the Bonds and the refunding of the Refunded Bonds:

### Sources:

Bond Proceeds:		
Par Amount	\$	464,655,000
Premium		17,082,455
Board Deposit <sup>1</sup>		19,290,825
<b>Total Sources of Funds</b>	\$	<u><u>501,028,280</u></u>

### Uses:

Deposit to the Refunding Escrow		
Accounts	\$	484,447,926
Deposit to Debt Service Fund		13,353,598
Costs of Issuance <sup>2</sup>		3,226,756
<b>Total Uses of Funds</b>	\$	<u><u>501,028,280</u></u>

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<sup>1</sup> Includes amounts currently on deposit for the payment of debt service on the Refunded Bonds which will be deposited into the Pledged State Aid Revenues Sub-Account and applied to the payment of debt service to become due on the Bonds on June 1 and December 1, 2008.

<sup>2</sup> Includes underwriters' discount and bond insurance premium.

## **SECURITY FOR THE BONDS**

### **General**

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

The Bonds will be payable from and secured by a pledge of (i) an amount of those State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future (“State Aid Revenues”), not in excess of \$225,000,000, as shall provide for payment of the Bonds, any Swap Payments and any Additional Bonds in each year as set forth in the Indenture, and the provision of not less than an additional .10 times the debt service on such Bonds and any Additional Bonds in such years (the “Pledged State Aid Revenues”); (ii) the Pledged Taxes; (iii) all Funds, Accounts and Sub-Accounts pledged pursuant to the Indenture; and (iv) any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons, to be held by the Trustee under the Indenture. As to the lien on the Pledged State Aid Revenues, the Bonds will be payable on a parity basis with the 2008B Bonds when and if issued, and any Additional Bonds as described in “SECURITY FOR THE BONDS – Additional Bonds Payable from Pledged State Aid Revenues,” below. As described herein, the Pledged Taxes will be collected for the benefit of the Bonds only as and to the extent that the Pledged State Aid Revenues for the Bonds, together with investment earnings thereon, are not available in sufficient amounts to pay the debt service on such Bonds when due.

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

### **General State Aid**

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

GSA consists of a regular foundation formula claim, as explained below, and a poverty grant. The calculation of the regular foundation claim depends primarily upon a school district’s best three months’ average daily attendance and local resources, such as equalized assessed valuation of property and corporate personal property replacement tax revenues within the school district. The GSA formula used through fiscal year 1998 provided for different methods of allocation, depending primarily upon the equalized assessed valuation of property within a

school district's boundaries. The amount of GSA distributed to school districts was determined by the annual State appropriation. The GSA formula was amended in 1997, and as a result, the minimum or "foundation level" of GSA per pupil was \$4,560 in fiscal year 2003, \$4,810 in fiscal year 2004, \$4,964 in fiscal year 2005, \$5,164 in fiscal year 2006 and \$5,334 in fiscal year 2007. In subsequent years, this "foundation level" will be set by the General Assembly. No assurance can be given that the "foundation level" will be increased or even funded at current levels in future fiscal years. Legislation adopted in 1999 by the General Assembly increased GSA funding for school districts that would otherwise experience a decrease in this funding because of increases in equalized assessed valuation of real property.

The poverty grant provides additional resources for school districts that have a high concentration of low-income pupils. Before fiscal year 2004, the low-income eligible pupil count came from the most recently available federal census. The per-pupil amount of the poverty grant that applied to the Board was \$1,333 for fiscal year 2002 and \$1,362 for fiscal year 2003. In May 2003, the General Assembly adopted a new poverty grant formula. Instead of the most recent federal census poverty data, a new poverty count prepared by the Illinois Department of Human Services was used starting in fiscal year 2004. The fiscal year 2004 count was an average of the 2002 and 2003 count of children who were eligible for assistance under Medicaid, Kidcare, Food Stamps, or Temporary Assistance for Needy Families ("TANF"). The poverty count for fiscal year 2005 and each year thereafter is the average of the children eligible for Medicaid, Kidcare, Food Stamps and TANF for the three previous years. Under the new formula, the per-pupil poverty grant amount changed from \$1,230 for fiscal year 2004, to \$1,264 for fiscal year 2005, \$1,327 for fiscal year 2006 and \$1,466 for fiscal year 2007. This per-pupil poverty grant amount is multiplied by the poverty count to generate a poverty grant total.

The following chart sets forth the total GSA allocated to the Board for each of the fiscal years 1998 through 2007, the required contributions for supplemental general state aid allocations to individual schools, and the net amount available for deposit into the General Fund of the Board.

**GENERAL STATE AID**  
Fiscal Years 1998 – 2007  
(Dollars in Millions)

<b>Fiscal Year</b>	<b>Total GSA Claim<sup>(1)</sup></b>	<b>Supplemental General State Aid Allocation</b>	<b>Unrestricted GSA General Fund Deposit<sup>(2)</sup></b>
1998	572.7	261.2	311.4
1999	675.8	261.3	414.5
2000	711.1	261.0	450.1
2001	724.5	261.0	463.5
2002	787.2	261.0	526.2
2003	768.1	261.0	507.1
2004	840.7	261.0	579.7
2005	910.4	261.0	649.4
2006	962.5	261.0	701.5
2007	1,023.9	261.0	762.9

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

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

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

Illinois law further specifies that whenever new property is added to a school district’s tax base, adjustments are to be made to that school district’s GSA. Currently, the Board generally experiences a \$3 decrease in GSA for every \$100 of adjusted equalized assessed valuation (the “AEAV”) resulting from the addition of new property to its tax base (the “New AEA”). However, given the Board’s current operating tax rate, the Board could offset this decrease and receive approximately \$3.05 in additional real estate taxes for every \$100 of New AEA, provided that the Board elects to apply its full, current operating tax rate to the New AEA in the year in which it becomes available.

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

#### **Additional Bonds Payable From Pledged State Aid Revenues**

The Board may issue additional Alternate Bonds from time to time payable from and secured by the Pledged State Aid Revenues available pursuant to the 2008 Authorization



("Additional Bonds"). Any Additional Bonds issued by the Board shall share ratably and equally in the Pledged State Aid Revenues available pursuant to the 2008 Authorization with the Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. The Board may also issue other Alternate Bonds payable from any other source of payment which may be pledged under the Debt Reform Act.

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

The Board expects to issue on or about May 13, 2008 the Series 2008A Bonds in the aggregate principal amount of \$262,785,000 and the Series 2008B Bonds in the aggregate principal amount of \$240,975,000. When and if issued, the Series 2008B Bonds will be on parity with and will share ratably and equally in the Pledged State Aid Revenues with the Bonds.

### **Pledged Taxes**

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

### **Debt Service Funds and Accounts**

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

The Trustee shall deposit to the credit of the Interest Deposit Sub-Account (i) on the date of issuance of the Bonds, funds paid by the Board to the Trustee, derived in part from funds released from the Series 2003B Indenture and the Series 2004B Indenture, in an amount sufficient to pay the interest due on the Bonds on June 1, 2008 and December 1, 2008, and thereafter, any other 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 a Swap Provider under a Swap Agreement to the extent set forth in a certificate of a Designated Official filed with the Trustee. Any interest payments required to be made by the Board in connection with interest due on the Bonds on June 1, 2008 and December 1, 2008 will be paid from lawfully available funds of the Board other than the Bond proceeds. 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.

### **Application of Pledged State Aid Revenues; Abatement of Pledged Taxes**

On or before February 15 of each year, or such earlier date as may be necessary to permit the Board to lawfully make the abatement of the Pledged Taxes with respect to the Bonds as described below (each such date being referred to as a "Deposit Date"), the Board shall deposit to the credit of the Pledged State Aid Revenues Sub-Account such amounts derived from Pledged State Aid Revenues as shall be necessary to cause the amount on deposit in said Account to equal the "Pledged State Aid Revenues Account Requirement." The Pledged State Aid Revenues Account Requirement is determined on each Deposit Date and is equal to the amount which will cause the amount on deposit in the Pledged State Aid Revenues Sub-Account to be equal to the sum of (i) the interest payable on the Bonds on the next succeeding June 1 and December 1; provided, however, that for any period of time during the annual period beginning on December 2 of the preceding year (each a "Bond Year"), for which a Swap Agreement (as defined below) is in place with respect to any Bonds, such amount shall be increased or decreased, as appropriate, by calculating interest with respect to such Bonds at an interest rate equal to the interest rate payable with respect to the Bonds pursuant to such Swap Agreement determined as set forth in a written notice delivered by the Board to the Trustee under the Indenture regarding such Swap Agreement, and (ii) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the next succeeding December 1. With respect to Pledged State Aid Revenues, in the event that on any Deposit Date there has been deposited to the credit of the Pledged State Aid Revenues Sub-Account an insufficient amount to satisfy the amount required by the Indenture governing the Bonds, the Board will take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the Pledged Revenues Account, to provide funds sufficient to satisfy the Pledged State Aid Revenues Account Requirement.

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

If at any time the amount on deposit in the Pledged State Aid Revenues Sub-Account shall be insufficient to provide for the payment in full of (i) the principal of and interest on the Bonds and (ii) the Swap Payments to become due during the then-current Bond Year, the Board shall promptly deposit moneys derived from Pledged State Aid Revenues into the Pledged State Aid Revenues Sub-Account in such amounts as shall be necessary to cause the amount on deposit in the Pledged State Aid Revenues Sub-Account to be sufficient to pay (x) the interest to accrue on the Bonds for the remainder of the then-current Bond Year (y) the principal amount of Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the last day of the then-current Bond Year and (z) the Swap Payments scheduled to become due during the then-current Bond Year.

All amounts on deposit in the Pledged State Aid Revenues Sub-Account on December 2 of each year, following the transfers required to be made to the Bond Payment Account, shall be withdrawn from said Sub-Account and paid to the Board free and clear of the lien of the Indenture.

### **Indenture Funds, Accounts and Sub-Accounts**

In addition to the Pledged State Aid Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts pledged pursuant to the Indenture for the Bonds are pledged to the payment of such series of 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."

### **Bonds Are Obligations of the Board**

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

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, the Bond Insurer will issue its Municipal Bond Insurance Policy (the "Policy") for the Insured Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

The Bond Insurer is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings

is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or the Bond Insurer is liable for the obligations of the Bond Insurer.

At December 31, 2007, the Bond Insurer's consolidated policyholders' surplus and contingency reserves were approximately \$2,703,119,716 and its total net unearned premium reserve was approximately \$2,274,576,959 in accordance with statutory accounting principles. At December 31, 2007, the Bond Insurer's consolidated shareholder's equity was approximately \$2,962,301,379 and its total net unearned premium reserve was approximately \$1,796,984,819 in accordance with generally accepted accounting principles.

The consolidated financial statements of the Bond Insurer included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2007 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of the Bond Insurer included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds. The Bond Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Bond Insurer has provided to the Board the information presented under this caption for inclusion in the Official Statement.

## **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. 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 Chicago Board of Education 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 Chicago Board of Education and President of Ancora Associates, a management consulting firm. Ms. Muñana has completed both domestic and international engagements for not-for-profit, public sector and private sector clients in the U.S., Europe, Africa and Latin America. She received a Bachelor of Arts from Boston College, a Masters in International Economics from the School of Advanced International Studies at The Johns Hopkins University, a Masters in Business from the Kellogg Graduate School of Management at Northwestern University and holds a certificate in French Civilization and Language from the Sorbonne University in Paris. Ms. Muñana is active in several boards and civic organizations including the Aspen Institute, Chicago Public Education Fund and the National Museum of Mexican Arts.

**Norman R. Bobins** is Chairman Emeritus 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 the Field Museum, the Art Institute of Chicago, WTTW Communications, Inc., and the Chicago Exploratory Olympic Committee.

**Dr. Tariq Butt** is a member of the Chicago Board of Education and 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 M. 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:

<b>Member</b>	<b>Term Expires</b>
Rufus Williams, President.....	June 30, 2011
Clare Muñana, Vice President.....	June 30, 2010
Norman R. Bobins .....	June 30, 2010
Dr. Tariq Butt.....	June 30, 2011
Alberto A. Carrero, Jr. ....	June 30, 2010
Peggy A. Davis .....	June 30, 2011
Roxanne M. Ward.....	June 30, 2011

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 education, working with students, teachers and parents. 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 obtained his MBA from DePaul University. He was 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 655 attendance centers consisting of 483 elementary schools, 116 high schools and 56 charter schools serving 408,601 children.

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

<b>School Year</b>	<b>Elementary School</b>	<b>High School</b>	<b>Combined</b>
2007/2008	296,060	112,541	408,601
2006/2007	301,122	112,572	413,694
2005/2006	308,993	111,989	420,982
2004/2005	320,719	106,093	426,812
2003/2004	330,196	104,223	434,419

## **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”). 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.

The Refunded Bonds were issued to fund, or refinance bonds issued to fund, improvements that are part of the Board's Capital Improvement Program.

*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. Chicago School Associates, a joint venture of design, engineering, and construction firms, currently serves as program manager for the Capital Improvement Program.

*Summary of Work Performed and Expenditures.* Since the inception of the Capital Improvement Program, 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 31 new schools, 15 replacement schools, 42 additions and 28 annexes. Additionally, 2,479 renovations have been completed to date, including new roofs at 458 schools, new windows for 418 schools, and masonry work for 382 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 342 play lots and 27 gymnasiums 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 September 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 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 will 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 Teachers' Union (the "CTU") and approximately 16% were represented by six other unions.

The Board's collective bargaining agreements with the seven labor organizations that represent Board employees expired on June 30, 2007. The Board reached tentative successor agreement with the CTU on August 28, 2007 before the start of the school year. The Board reached tentative successor agreements with the other six unions in July and August. The Board and the various bargaining units ratified the agreements on August 22, September 26, and October 24, 2007. Each agreement has a 5-year duration and is effective from July 1, 2007 to June 30, 2012. Each agreement provides for a 4% increase to the employees' salary schedules in each year of the agreement and a freeze on increases to employee health care contributions from January 1, 2008 to December 31, 2010.

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 2007, the Board adopted and achieved a balanced budget. In August 2007, the Board also adopted a balanced budget for fiscal year 2008 that reflected General Operating Fund appropriations of \$4.648 billion, of which \$109 million was derived from available fund balances. The most recent audited financial statements are for the fiscal year ended June 30, 2007, and are included as APPENDIX A.

**General Operating Fund Balances.** As of June 30, 2007, the Board had a fund balance of \$633.9 million, of which \$229.1 million has been reserved for encumbrances and other specific purposes. The remaining unreserved balance was \$404.8 million, \$233.2 million of which was designated to provide operating capital. The fiscal year 2008 budget re-appropriated \$109.0 million of ending fiscal year 2007 fund balance, \$36.0 million for specific purposes and \$73.0 million to balance the General Fund.

**General Operating Fund Revenues, Expenditures, Other Financing Sources and Changes in Fund Balances for the Board<sup>1</sup>**  
(Amounts in Thousands)  
**As of June 30**

	<b>Actual</b>					<b>Budget</b>
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008<sup>2</sup></b>
Revenues:						
Property Taxes .....	\$1,495,382	\$1,520,557	\$1,587,803	\$1,666,118	\$1,716,516	\$1,770,700
Replacement Taxes .....	48,852	61,897	94,546	131,639	147,403	145,900
State Aid .....	1,307,229	1,329,390	1,417,423	1,492,361	1,549,493	1,653,300
Federal Aid .....	602,677	703,821	746,403	757,731	711,963	862,200
Investment Income .....	20,803	18,779	14,003	36,874	61,595	36,650
Other .....	<u>76,609</u>	<u>87,545</u>	<u>85,377</u>	<u>101,129</u>	<u>95,534</u>	<u>70,550</u>
Total Revenues .....	<u>\$3,551,552</u>	<u>\$3,721,989</u>	<u>\$3,945,555</u>	<u>\$4,185,852</u>	<u>\$4,282,504</u>	<u>\$ 4,539,300</u>
Expenditures						
Instruction .....	\$2,214,781	\$2,355,114	\$2,429,014	\$2,538,909	\$2,491,653	\$2,733,401
Pupil Services .....	320,380	327,653	323,225	333,968	349,324	383,106
Support Services .....	764,002	770,629	821,583	893,041	916,334	1,066,865
Food Services .....	170,238	180,588	173,872	172,774	179,902	197,265
Community Services .....	47,253	49,933	42,325	46,179	45,467	51,639
Teachers' Pension .....	65,045	65,045	65,045	75,398	155,563	203,075
Other .....	<u>13,742</u>	<u>9,548</u>	<u>7,332</u>	<u>24,824</u>	<u>8,126</u>	<u>12,962</u>
Total Expenditures .....	<u>\$3,595,441</u>	<u>\$3,758,510</u>	<u>\$3,862,396</u>	<u>\$4,085,093</u>	<u>\$4,146,369</u>	<u>\$4,648,300</u>
Revenues in Excess of (less than) Expenditures .....	<u>\$(43,889)</u>	<u>\$ (36,521)</u>	<u>\$ 83,159</u>	<u>\$ 100,759</u>	<u>\$ 136,135</u>	<u>(\$109,000)</u>
Other Financing Sources .....	<u>7,711</u>	<u>15,071</u>	<u>328</u>	<u>4,145</u>	<u>1,904</u>	<u>0</u>
Change in Fund Balance						
Revenues and Other Financing Sources in Excess of (Less than) Expenditures .....	<u>\$ (36,178)</u>	<u>\$ (21,450)</u>	<u>\$83,487</u>	<u>\$104,904</u>	<u>\$ 138,039</u>	<u>(\$109,000)</u>
Fund Balance, Beginning of Period .....	<u>365,134</u>	<u>328,956</u>	<u>307,506</u>	<u>390,993</u>	<u>495,897</u>	<u>633,936</u>
Fund Balance, End of Period .....	<u>\$ 328,956</u>	<u>\$ 307,506</u>	<u>\$ 390,993</u>	<u>\$ 495,897</u>	<u>\$ 633,936</u>	<u>\$524,936</u>
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances .....	<u>\$ 78,879</u>	<u>\$ 67,542</u>	<u>\$ 97,313</u>	<u>\$ 102,286</u>	<u>\$ 97,731</u>	<u>\$ 97,731</u>
Specific Purposes .....	<u>41,718</u>	<u>43,454</u>	<u>45,134</u>	<u>85,891</u>	<u>131,362</u>	<u>131,362</u>
Total Reserved Fund Balance .....	<u>\$ 120,597</u>	<u>\$ 110,996</u>	<u>\$ 142,447</u>	<u>\$ 188,177</u>	<u>\$ 229,093</u>	<u>\$ 229,093</u>
Unreserved:						
Designated to Provide						
Operating Capital .....	<u>\$ 161,233</u>	<u>\$ 171,300</u>	<u>\$ 190,000</u>	<u>\$ 218,400</u>	<u>\$ 233,200</u>	<u>\$ 233,200</u>
Undesignated .....	<u>47,126</u>	<u>25,210</u>	<u>58,546</u>	<u>89,320</u>	<u>171,643</u>	<u>62,643</u>
Total Unreserved .....	<u>\$ 208,359</u>	<u>\$ 196,510</u>	<u>\$ 248,546</u>	<u>\$ 307,720</u>	<u>\$ 404,843</u>	<u>\$295,843</u>
Total Fund Balance .....	<u>\$ 328,956</u>	<u>\$ 307,506</u>	<u>\$ 390,993</u>	<u>\$ 495,897</u>	<u>\$ 633,936</u>	<u>\$ 524,936</u>

<sup>1</sup> 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.”

<sup>2</sup> Amounts are derived from the Fiscal Year 2008 Budget as published by the Board’s Budget Department.

## **Outstanding Debt Obligations**

**Long-Term Debt Obligations.** In addition to the Bonds, the Board has approximately \$4.7 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt also consists of approximately \$412 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.

**Variable Rate Debt of the Board.** Without giving effect to the issuance of the Bonds and the Series 2008A/B Bonds and the refunding of outstanding bonds of the Board with proceeds thereof, the Board has outstanding variable rate long-term debt obligations aggregating approximately \$1.8 billion. Of this amount, approximately \$986 million were issued as auction rate securities (the "ARS Bonds"), and approximately \$839 million were issued as variable rate demand bonds other than auction rate securities (the "VRDBs"). The Board expects to issue the Series 2008A Bonds on or about May 13, 2008, with the proceeds thereof to be applied to the refunding of all of the Board's outstanding Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2007A on or about May 15, 2008. The Board also expects to issue the Series 2008B Bonds on or about May 13, 2008, with the proceeds thereof to be applied to the refunding of all of the Board's outstanding Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003D on or about May 15, 2008. It is anticipated that the Series 2008B Bonds will be secured by Pledged State Aid Revenues on a parity basis with the Bonds. Upon issuance of the Bonds, together with the anticipated issuance of the Series 2008A/B Bonds, and completion of the refundings associated therewith, the Board will no longer have any ARS Bonds outstanding.

Approximately \$525 million of the VRDBs are insured by Financial Security Assurance Inc., and approximately \$313 million of the VRDBs are insured by CIFG Assurance North America, Inc. The Board monitors the market regularly to determine if any of its outstanding obligations should be restructured. In the event that the Board determines that any of its CIFG insured VRDBs should be restructured, the Board expects to have sufficient authorization to refund such obligations under the Bond Resolution.

**Board's Overlapping Debt Schedule  
as of April 1, 2008  
(Dollars in Thousands)**

	<b>Amount</b>
Direct Debt	
Series 2008A/B Bonds	\$ 503,760
The Bonds .....	464,655
Total Prior Bonds <sup>(1)</sup> .....	3,308,221
Leases Securing PBC Bonds (principal component) .....	411,690
Total Direct Debt .....	<u>\$4,688,326</u>

	<b>Amount</b>	<b>Percent Applicable</b>	<b>Amount Applicable</b>
Overlapping Debt <sup>(2)</sup>			
City	\$6,187,833	100%	\$6,187,833
School Finance Authority	127,795	100%	127,795
Community College District	-	100%	-
Chicago Park District <sup>(3)</sup>	803,410	100%	803,410
Water Reclamation District	1,453,548	49.14%	714,207
Cook County	2,953,610	48.16%	1,422,351
Forest Preserve District	123,780	48.16%	<u>59,608</u>

Total Overlapping Debt \$ 9,315,204

Total Direct and Overlapping Debt \$14,003,529

**Selected Debt Statistics**

Population (2006) .....	2,896,016 <sup>(5)</sup>
Equalized Assessed Valuation (2006) <sup>(4)</sup> .....	\$69,571,264 <sup>(6)</sup>
Estimated Fair Market Value (2005) .....	\$283,137,884 <sup>(7)</sup>

	<b><u>Per Capita<sup>(8)</sup></u></b>	<b><u>% EAV</u></b>	<b><u>% FMV</u></b>
Direct Debt	\$ 1,618.89	6.74%	1.656%
Total Direct and Overlapping Debt	\$ 4,835.458	20.13%	4.946%

(1) Excludes bonds which are expected to be refunded with the proceeds of the Series 2008A/B Bonds or the Bonds.

(2) 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	\$ -
Chicago Park District	\$ 19,205,000

(3) 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.

(4) Real property located in Cook County only.

(5) Source: United States Census Bureau.

(6) Source: Cook County Clerk's Office. Total Equalized Assessed Value is net of exemptions and includes assessment of pollution control facilities.

(7) Source: The Civic Federation.

(8) Per Capita amounts are not expressed as dollars in thousands.



**Board's Debt Service Schedule  
As of May 1, 2008**

<b>Calendar Year</b>	<b>Prior Bonds<sup>1,2</sup></b>	<b>PBC Leases<sup>1</sup></b>	<b>Series 2008A Bonds<sup>3</sup></b>	<b>Series 2008B Bonds<sup>4</sup></b>	<b>The Bonds</b>	<b>Total Annual Debt Service</b>
2008	\$180,375,984	\$52,096,838	\$9,650,779	\$11,860,975	\$13,790,554	\$267,775,130
2009	256,819,807	52,103,825	15,372,923	16,083,337	23,640,950	364,020,842
2010	260,323,200	52,163,338	15,372,923	16,096,136	23,640,950	367,596,547
2011	273,660,111	52,232,025	15,372,923	16,097,307	23,640,950	381,003,316
2012	254,225,385	52,318,625	15,372,923	16,161,851	23,640,950	361,719,734
2013	275,032,845	52,359,513	15,372,923	16,236,279	23,640,950	382,642,510
2014	264,255,285	52,430,550	15,372,923	16,794,429	23,640,950	372,494,137
2015	274,527,486	52,467,613	15,372,923	16,838,045	23,640,950	382,847,017
2016	265,616,412	52,519,550	15,372,923	16,914,220	23,640,950	374,064,055
2017	262,522,091	52,600,125	15,372,923	16,420,629	31,060,950	377,976,718
2018	257,941,097	52,664,600	15,372,923	16,382,851	32,084,950	374,446,421
2019	281,716,216	30,635,500	15,372,923	16,354,957	32,510,313	376,589,909
2020	311,182,584	-	15,372,923	16,310,785	32,534,563	375,400,855
2021	318,743,678	-	15,372,923	16,300,334	32,568,563	382,985,498
2022	283,083,523	-	15,372,923	16,046,279	62,910,563	377,413,288
2023	276,445,246	-	15,372,923	15,959,085	63,018,813	370,796,067
2024	276,370,801	-	15,372,923	15,955,613	63,148,513	370,847,850
2025	238,023,300	-	53,762,923	15,931,211	63,175,900	370,893,334
2026	237,928,887	-	53,537,108	15,885,879	63,294,663	370,646,537
2027	207,571,870	-	53,293,123	15,819,618	89,703,250	366,387,861
2028	274,151,580	-	53,035,118	15,782,428	26,260,000	369,229,126
2029	270,059,212	-	52,766,658	15,721,982	26,313,000	364,860,852
2030	255,784,808	-	52,485,723	15,638,282	26,366,000	350,274,813
2031	307,939,597	-	-	15,581,326	26,406,250	349,927,173
2032	78,244,583	-	-	15,548,790	16,621,500	110,414,873
2033	54,418,465	-	-	15,488,348	-	69,906,813
2034	54,431,319	-	-	-	-	54,431,319
2035	54,448,005	-	-	-	-	54,448,005
2036	41,340,053	-	-	-	-	41,340,053
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$6,647,183,430</u>	<u>\$606,592,102</u>	<u>\$574,498,189</u>	<u>\$414,210,971</u>	<u>\$890,895,945</u>	<u>\$9,133,380,653</u>

<sup>1</sup> Debt service payments include principal and interest due to and including the following January 1.

<sup>2</sup> Interest on variable rate bonds is calculated at assumed rates of between 4.5% and 6% per annum, although actual rates may vary, and in recent markets, have varied. Interest on bonds that are the subject of an interest rate swap is calculated at the applicable swap rate. See "Board's Interest Rate Swap Agreements" below.

<sup>3</sup> Represents the amount the Board expects that it will be required to pledge each year pursuant to the indenture related to the Series 2008A Bonds plus an additional 60 basis points.

<sup>4</sup> Represents the amount the Board expects that it will be required to pledge each year pursuant to the indenture related to the Series 2008B Bonds plus an additional 63 basis points.

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

	<u><b>2003</b></u>	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>	<u><b>2007</b></u>
Assessed Value	\$45,337,763	\$53,175,365	\$55,283,639	\$59,310,826	\$69,517,264
Debt Limit	6,256,611	7,338,200	7,629,142	8,184,894	9,593,382
General Obligation	979,083	917,855	764,761	711,982	658,947
Less: Amount set aside for repayment of bonds	(37,486)	(36,226)	(38,913)	(39,984)	(37,322)
Total Net Debt applicable to Debt Limit <sup>1</sup>	<u>941,597</u>	<u>881,629</u>	<u>725,848</u>	<u>671,998</u>	<u>621,625</u>
Legal debt margin	<u>\$5,315,014</u>	<u>\$6,456,571</u>	<u>\$6,903,294</u>	<u>\$7,512,896</u>	<u>\$8,971,758</u>
Total net debt applicable to the limit as a percentage of Debt Limit	15.05%	12.01%	9.51%	8.21%	6.48%

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<sup>1</sup> Pursuant to Section 15 of the Debt Reform Act, this table does not reflect the Prior Alternate Bonds because the Prior Alternate Bonds do not count against the debt limit unless the tax levy supporting them is extended for collection.

## Board's Interest Rate Swap Agreements

The Indenture permits the Board to enter into one or more interest rate swap agreements with respect to the Bonds. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Bonds.

The Board has previously entered into the interest rate swap agreements set forth in the table below (collectively, the “Existing Swap Agreements”). The interest rate swap agreements related to the Series 2003B Bonds and the Series 2004B Bonds as shown below are referred to as the “Series 2003B Swap Agreements” and the “Series 2004B Swap Agreements”. The Board is terminating the Series 2003B Swap Agreements and the Series 2004B Swap Agreements in connection with the issuance of the Bonds and the refunding of the Refunded Bonds.

Series	Counterparty	Rating of Counterparty (Moody's/ Standard & Poor's)	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2000C	Royal Bank of Canada	Aaa/AA-	3/1/2007	\$61,100,000	3/1/2032	3.823%	70% of LIBOR
2003B <sup>1</sup>	Goldman Sachs Capital Markets LP	Aa3/AA-	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 NA	Aaa/AA+	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 Financial Products Inc.	Aaa/AAA	3/1/2007	\$185,350,000	3/1/2034	70% of LIBOR (1 Month)	65.02% of LIBOR (5 year)
2003D	Lehman Brothers Special Financing Inc	A1/A+	12/12/2003	\$95,350,000	3/1/2034	3.771%	70% of LIBOR
	Goldman Sachs Capital Markets LP	Aa3/ AA-	12/12/2003	\$90,000,000	3/1/2034	3.771%	70% of LIBOR
2004B <sup>1</sup>	Goldman Sachs Capital Markets LP	Aa3/ AA-	4/6/2004	\$178,845,000	3/1/2032	3.5439%	70% of LIBOR
	Bear Stearns Financial Products Inc.	Aaa/AAA	4/6/2004	\$119,230,000	3/1/2032	3.5439%	70% of LIBOR
	Bear Stearns Financial Products Inc.	Aaa/AAA	4/6/2004	\$298,075,000	3/1/2032	70% of LIBOR	X% of LIBOR <sup>2</sup>
2004C	Royal Bank of Canada	Aaa/AA-	3/1/2007	\$124,320,000	3/1/2035	3.825%	70% of LIBOR
2005A	Loop Financial Products I LLC <sup>3</sup>	Aa1/AA	11/1/2005	\$116,151,000	12/1/2031	BMA Index	70% of LIBOR + 0.524 bp
	Merrill Lynch Capital Services, Inc	A1/A+	11/1/2005	\$77,434,000	12/2/2031	BMA Index	80.76% Straight Ratio
2005D-1 & 2005E	Loop Financial Products I LLC <sup>3</sup>	Aa1/AA	12/8/2005	\$287,055,000	3/1/2036	3.6617%	70% of LIBOR
2007A	Royal Bank of Canada	Aaa/AA-	12/1/2007	\$162,785,000	12/1/2028	5.25%	70% of LIBOR + 28bp
2007A	Bank of America NA	Aaa/AA+	12/1/2007	\$100,000,000	12/2/2030	5.25%	70% of LIBOR + 28bp

(1) To be terminated at or before the time of issuance of the Bonds.

(2) 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%

(3) Loop Capital Markets is provided credit support by Deutsche Bank.

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**

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* (“GASB 45”) for retiree healthcare benefits. Although the Board is not required to adopt the standards set forth in GASB 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**

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

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

## **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** (referred to herein as, the “City” or the “City of Chicago”) is a home rule unit of government under the Illinois Constitution and was incorporated in 1837. The City is governed by 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 CTA is funded in part by the RTA sales tax described below and by a \$1.50 per \$500 of transfer price on real property sold within the City of Chicago.

**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 16-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 state-wide administrative body, or to the Circuit Court of Cook County (the “Circuit Court”). The PTAB has the power to determine the Assessed Valuation of real property based on equity and the weight of the evidence. Based on the amount of the proposed change in assessed valuation, taxpayers may appeal decisions of the PTAB to either the Circuit Court or the Illinois Appellate Court under the Illinois Administrative Review Law.

In a series of recent PTAB decisions, the PTAB reduced the assessed valuations of certain commercial and industrial property in the County based upon the application of median levels of assessment derived from Illinois Department of Revenue sales-ratio studies instead of utilizing the assessment percentages provided in the Classification Ordinance. On appeal, the Illinois Appellate Court determined that it was improper for the PTAB, on its own initiative, to use the sales-ratio studies when such studies were not even raised as an issue by the taxpayer before the Board of Review or in its appeal to the PTAB.

The Appellate Court decisions do not preclude a taxpayer in a properly presented case from introducing into evidence sales-ratio studies for the purpose of obtaining an assessment

below that which would result from application of the Classification Ordinance. No prediction can be made whether any currently pending or future case would be successful. The Board believes that the impact of any such case on the Board would be minimal, as the Board's ability to levy or collect real property taxes would be unaffected.

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” to limit future increases in the taxable value of residential property. On July 12, 2004, the Property Tax Code was amended to permit each county in the State, by enacting an ordinance within six months of the effective date of the law, to limit future increases in the taxable value of residential property in such a county to an annual increase of not more than 7% per year. Upon adoption of such an ordinance, homestead property will generally be entitled to an annual homestead exemption equal to the difference between the property’s Equalized Assessed Valuation and the property’s “adjusted homestead value.” The purpose of the law is to reduce the increase in the taxable value of residential property that otherwise occurs when home values rise rapidly. The Cook County Board adopted an ordinance electing to be governed by this law. The exemption provided for under this law cannot exceed \$20,000 in any year.

In 2007, the Alternative Homestead Exemption law enacted in 2004 was allowed to sunset. Subsequently, the Illinois General Assembly passed House Bill 664 which extends the Alternative Homestead Exemption law for an additional three years, subject to certain revisions and adjustments to the prior law. Governor Blagojevich later amendatorily vetoed HB 664, but the Illinois General Assembly overrode the Governor’s amendatory veto making HB 664 law as Public Act 95-0644. Pursuant to Public Act 95-0644, the maximum exemption will be \$33,000 in Equalized Assessed Valuation in the first year, decreasing to \$26,000 in the second year, and \$20,000 in Equalized Assessed Valuation in the third or final year. In Cook County, this increased exemption will be “phased in” over a three-year period, with full implementation by

2009. Notwithstanding the above, in Cook County for taxable year 2007 only, the maximum exemption otherwise allowable may be increased by (a) \$7,000 if the equalized assessed value of the property exceeds the property's Equalized Assessed Valuation in 2002 by 100% or more or (b) \$2,000 if the Equalized Assessed Valuation of the property exceeds the property's Equalized Assessed Valuation in 2002 by more than 80% but less than 100%. Upon the expiration of the extension of the Alternative Homestead Exemption law authorized by Public Act 95-0644, the above-described general homestead exemption will apply.

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.

In October 2004, the Chicagoland Chamber of Commerce, along with multiple other plaintiffs, filed a Complaint for Declaratory and Injunctive Relief in the Circuit Court, requesting the court to enter an order declaring the 2004 Alternative Homestead Exemption law unconstitutional and enjoining the application and enforcement of its provisions. (The Chicagoland Chamber of Commerce, et. al. v. Maria Pappas, et. al., 04 CH 16874). On April 22, 2005 the circuit court dismissed the complaint, and that ruling is presently on appeal. The appeal was argued in September of 2006, and a decision awaits. The Board is not a party to the lawsuit and the outcome of the lawsuit is not expected to have a material impact on the Board.

**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 been later than November 16 only once; the date for tax year 2006 was December 4, 2007. 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. The Bond Issue Notification Act does not require a public hearing in connection with the issuance of refunding bonds, such as the Bonds.

## **Property Tax Information**

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



## Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1997-2006

(Dollars in Thousands)

Tax Year Levy <sup>(9)</sup>	Assessed Values <sup>(1)</sup>					State Equalization Factor <sup>(2)</sup>	Total Equalized Assessed Value <sup>(3)</sup>	Total Estimated Fair Cash Value <sup>(4)</sup>	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
	Class 2 <sup>(5)</sup>	Class 3 <sup>(6)</sup>	Class 5 <sup>(7)</sup>	Other <sup>(8)</sup>	Total				
2006 <sup>(10)</sup>	\$18,521,873	\$2,006,898	\$12,157,199	\$688,818	\$33,374,788	2.7076	\$69,511,192	Not available	Not available
2005	13,420,538	\$1,842,613	10,502,698	\$462,099	26,227,948	2.7320	59,304,530	\$283,137,884	20.95%
2004	12,998,216	1,883,047	10,401,428	465,464	25,738,155	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

(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 2007 not available as of the date of this Official Statement.

## Board's Property Tax Extensions and Collections<sup>1</sup>

(Dollars in Thousands)

Levy Year <sup>3</sup>	Extension	First Year Collections		Cumulative Collections <sup>2</sup>	
		Amount	Percent	Amount	Percent
2007	\$1,981,221	\$296,393	15.0%	\$296,393	15.0%
2006	1,874,750	1,644,937	87.7	1,796,606	95.8
2005	1,794,063	1,728,522	96.3	1,770,652	98.7
2004	1,716,111	1,565,982	91.3	1,699,852	99.1
2003	1,670,337	1,500,238	89.8	1,633,728	97.8
2002	1,614,473	1,548,369	95.9	1,581,924	98.0
2001	1,571,962	1,519,630	96.7	1,550,028	98.6
2000	1,503,488	1,446,847	96.2	1,470,938	97.8
1999	1,451,206	1,408,124	97.0	1,425,742	98.2
1998	1,416,346	1,317,872	93.0	1,379,568	97.4

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<sup>1</sup> Source: Board of Education of the City of Chicago.

<sup>2</sup> 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.

<sup>3</sup> The 2007 tax extension year reflects collections through March 20, 2008.

## Real Property Tax Rates

(per \$100 equalized assessed valuation)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Tax Rates by Board Fund:</b>										
Educational .....	\$2.998	\$3.059	\$3.000	\$2.756	\$2.712	\$2.670	\$2.258	\$2.301	\$2.142	\$2.078
School District Medicare.....	0.022	0.044	0.048	0.047	0.031	0.017	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	0.021
PBC Operation and Maintenance .....	0.719	0.722	0.701	0.640	0.685	0.609	0.565	0.576	0.565	0.521
Bond Redemption & Interest .....	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PBC Lease Rentals .....	<u>0.099</u>	<u>0.155</u>	<u>0.149</u>	<u>0.130</u>	<u>0.125</u>	<u>0.116</u>	<u>0.100</u>	<u>0.096</u>	<u>0.091</u>	0.077
Board Subtotal .....	<u>\$4.084</u>	<u>\$4.172</u>	<u>\$4.104</u>	<u>\$3.714</u>	<u>\$3.744</u>	<u>\$3.562</u>	<u>\$3.142</u>	<u>\$3.104</u>	<u>\$3.026</u>	<u>\$2.697</u>
<b>Other Major Government Units:</b>										
City of Chicago .....	2.024	\$1.998	\$1.860	\$1.660	\$1.637	\$1.591	\$1.380	\$1.302	\$1.243	\$1.062
Community College District .....	0.356	0.354	0.347	0.311	0.307	0.280	0.246	0.242	0.234	0.205
School Finance Authority .....	0.270	0.268	0.255	0.223	0.223	0.177	0.151	0.177	0.127	0.118
Chicago Park District.....	0.665	0.653	0.627	0.572	0.567	0.545	0.464	0.455	0.443	0.379
Water Reclamation District.....	0.451	0.444	0.419	0.415	0.401	0.371	0.361	0.347	0.315	0.284
Cook County .....	0.919	0.911	0.854	0.824	0.746	0.690	0.630	0.593	0.533	0.500
Cook County Forest Preserve.....	<u>0.074</u>	<u>0.072</u>	<u>0.070</u>	<u>0.069</u>	<u>0.067</u>	<u>0.061</u>	<u>0.059</u>	<u>0.060</u>	<u>0.060</u>	<u>0.057</u>
Other Unit Subtotal .....	<u>\$4.759</u>	<u>\$4.700</u>	<u>\$4.432</u>	<u>\$4.074</u>	<u>\$3.948</u>	<u>\$3.715</u>	<u>\$3.291</u>	<u>\$3.176</u>	<u>\$2.955</u>	<u>\$2.005</u>
<b>TOTAL.....</b>	<u>\$8.843</u>	<u>\$8.872</u>	<u>\$8.536</u>	<u>\$7.788</u>	<u>\$7.692</u>	<u>\$7.277</u>	<u>\$6.433</u>	<u>\$6.280</u>	<u>\$5.981</u>	<u>\$5.302</u>

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

## **TAX EXEMPTION**

### **General**

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

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

Interest on the Bonds is not exempt from income taxes imposed by the State of Illinois. In rendering their opinions, Co-Bond Counsel will rely upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities to be financed or refinanced with the Bonds, the application of the proceeds of the Bonds and certain other matters pertinent to the tax exemption of the Bonds. Additionally, in rendering its opinion, Co-Bond Counsel will rely upon (i) opinions of Kutak Rock LLP and Charity & Associates, P.C., co-bond counsel to the Board in connection with the issuance of the Series 2004B Bonds, as to the validity and tax-exempt status of the Series 2004B Bonds and (ii) the mathematical computations of Causey Demgen & Moore Inc., independent certified public accountants, supporting the conclusions of Co-Bond Counsel that the Bonds are not “arbitrage bonds” under the Code.

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

If a Bond is purchased at any time for a price that is less than the Bond’s stated redemption price at maturity, the purchaser may be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis

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

Co-Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds. It is possible that future legislation or amendments to the Code, if enacted into law, will contain provisions which could directly or indirectly reduce the benefit of the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

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

## **Bond Premium**

An amount equal to the excess of the purchase price of a Bond over the principal amount payable at maturity of such Bond constitutes amortizable bond premium that may not be deducted for federal income tax purposes. A purchaser of a Bond must amortize any premium over such Bond's term using constant yield principles, based on the Bond's yield to maturity. As bond premium is amortized, the purchaser's basis in such Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This reduction will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on the sale or disposition of such Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the federal, state and local tax consequences of owning such Bonds.

## **RATINGS**

The Insured Bonds have received ratings of "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"), "AAA" by Fitch Ratings ("Fitch") and "Aaa" by Moody's Investors Services ("Moody's") based on the Bond Insurance Policy to be issued by the Bond Insurer for the Insured Bonds.

The Bonds, other than the Insured Bonds, have received ratings of “AA-” by Standard & Poor’s, “A+” by Fitch and “A1” by Moody’s based upon the creditworthiness of the Board and without regard to any bond insurance or other credit enhancement.

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

## **FINANCIAL STATEMENTS**

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

## **FINANCIAL ADVISOR**

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

## **UNDERWRITING**

Lehman Brothers, Inc., as Representative of the Underwriters identified on the cover page of this Official Statement, has agreed to purchase the Bonds at an aggregate purchase price of \$479,848,195 (which represents par, plus original issue premium of \$17,082,455, less an Underwriters’ discount of \$1,889,260). 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 LEGAL MATTERS**

Issuance of the Bonds is subject to the issuance of the approving legal opinion of Perkins Coie LLP and Greene and Letts, 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, Shefsky & Froelich, Ltd., Chicago, Illinois; and for the Underwriters by their Co-Counsel, Dykema Gossett PLLC, Chicago, Illinois and Sanchez Daniels & Hoffman LLP, Chicago, Illinois.

## **CERTAIN VERIFICATIONS**

Causey Demgen & Moore Inc. (the “Verifier”), independent certified public accounts, 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 Government Obligations, together with any initial cash deposit, to meet the timely payment of the applicable redemption price of, and interest on the Refunded Bonds, as described under “PLAN OF FINANCE” and (ii) the mathematical computations supporting 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.

## **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.

### **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.

### **Ryan Murray v. Board of Education, *et al.***

Ryan Murray, an 8th grade student at Bryn Mawr School, was rendered quadriplegic when he attempted a flip off a mini-trampoline during an extracurricular program operated by Chicago Youth Centers (“CYC”). The accident occurred on December 14, 1992. The suit his mother filed on his behalf in 1993 was voluntarily dismissed in 1997, and he re-filed the suit in 1998. His complaint asserts the Board was willful and wanton in its supervision of the program because it allowed CYC to use a mini-trampoline without adequate mats, and allowed CYC to assign an inexperienced coach to oversee the program. He also sued CYC, alleging it willfully and wantonly supervised the program and failed to use proper mats.

The Board and CYC each won summary judgment in the trial court, based on statutory immunities, in 2002. The plaintiff appealed, and in 2004, the appellate court affirmed. Although the appellate court ruled that the immunities the defendants had relied upon were subject to an exception for willful and wanton conduct, it found that neither the Board nor CYC had engaged



in willful and wanton conduct and thus neither was liable. The Illinois Supreme Court allowed plaintiff's petition for leave to appeal in 2005. In July 2007, the Supreme Court affirmed the appellate court's judgment. In September 2007, the Supreme Court granted the plaintiff's petition for reconsideration, and ultimately issued a decision reversing the appellate court and remanding the case to the trial court for resolution of the factual question of whether either defendant had engaged in willful and wanton conduct. 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 for the Bonds, and Beneficial Owners of the Bonds are limited to the remedies described in the Undertaking. See "– Consequences of Failure to Provide Information."

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

### **Annual Financial Information Disclosure**

The Board covenants in the Undertaking that it will disseminate its Annual Financial Information and its Audited Financial Statements, if any (as described below) 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, 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 Resolutions or the Indenture with respect to the Bonds, and the sole remedy in the event of any failure of the Board to comply with the Undertaking shall be an action to compel performance. A failure by the Board to comply with the Undertaking must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such failure may adversely affect the transferability and liquidity of the Bonds and their market price.

## **Amendment; Waiver**

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

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

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

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

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

### **Termination of Undertaking**

The Undertaking shall be terminated if the Board shall no longer have any legal liability for any obligation on or relating to repayment of the Bonds under the Indenture for the Bonds. If this provision is applicable, the Board shall each give notice in a timely manner to each NRMSIR or to the MSRB and to the SID, if any.

### **Dissemination Agent**

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

### **AUTHORIZATION AND MISCELLANEOUS**

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

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

By: /s/ Pedro Martinez  
Chief Financial Officer

**APPENDIX A**

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chicago Public Schools (the Board of Education of the City of Chicago, the "CPS", a body politic and corporate of the State of Illinois), as of and for the year ended June 30, 2007, which collectively comprise the CPS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CPS' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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, 2007, 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 19, 2007 on our consideration of the CPS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages A-3 through A-17 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 19, 2007



**CHICAGO PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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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, 2007. As 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**

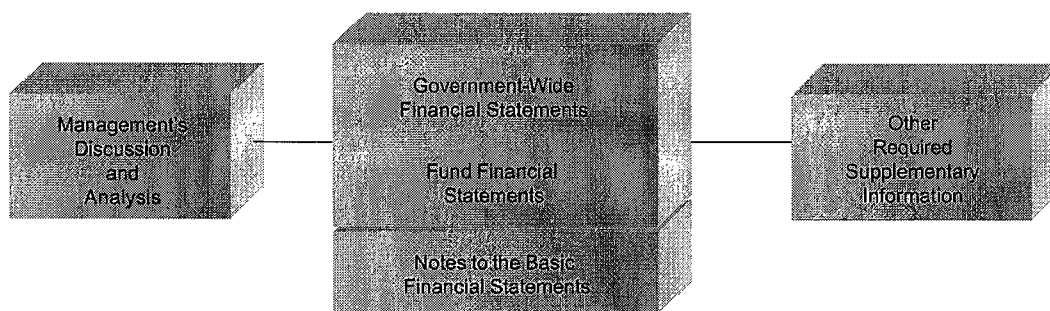
At fiscal year end, total fund balance was \$1.74 billion in fiscal year 2007, an increase of \$383.6 million. In the General Operating Fund, unreserved funds increased from \$307 million in fiscal year 2006 to \$405 million in 2007, an increase of \$98 million.

Total General Operating Fund actual revenues less expenditures exceeded budgeted resources less final appropriations by \$241 million.

During the fiscal year, CPS issued \$355.8 million in debt offerings to further fund the Capital Improvement Program. In November 2007, Standard & Poor's raised its credit rating on CPS' outstanding debt to "AA-" from "A+" and Moody's Investors Service raised its credit rating to "A1" from "A2". These upgraded credit ratings reflect CPS' continued strong financial stability.

#### **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			
	2007	2006	Difference	% Change
Current assets . . . . .	\$3,848	\$3,288	\$ 560	17.0%
Capital assets, net. . . . .	4,488	4,384	104	2.4%
Total Assets . . . . .	<u>\$8,336</u>	<u>\$7,672</u>	<u>\$ 664</u>	8.7%
Current liabilities . . . . .	\$ 934	\$ 877	\$ 57	6.5%
Long-term liabilities . . . . .	7,288	6,622	666	10.1%
Total Liabilities . . . . .	<u>\$8,222</u>	<u>\$7,499</u>	<u>\$ 723</u>	9.6%
Net Assets:				
Invested in capital assets net of related debt . . . . .	\$ 267	\$ 268	\$ (1)	-0.4%
Restricted for:				
Debt service. . . . .	414	357	57	16.0%
Specific purposes. . . . .	131	86	45	52.3%
Unrestricted. . . . .	(698)	(538)	(160)	29.7%
Total Net Assets . . . . .	<u>\$ 114</u>	<u>\$ 173</u>	<u>\$ (59)</u>	-34.1%

- **Total assets** of \$8.3 billion increased due to larger year end cash balances, larger accounts receivable balances, new school construction and other improvement projects as part of the CPS' Capital Improvement Program.
- **Capital assets**, net of depreciation, increased \$104 million or 2.4% over the prior fiscal year due to the continued progress of the Capital Improvement Program.
- **Long-term debt** increased \$245.2 million, or 5.4%. The total long-term portion of debt outstanding and capitalized leases was \$4.58 billion in fiscal year 2006 and \$4.82 billion in fiscal year 2007. In fiscal year 2007, CPS issued \$355.8 million in Unlimited Tax Obligation Bonds to fund the Capital Improvement Program.

- **Accrued pension** increased to \$1.75 billion in fiscal year 2007 from \$1.51 billion in fiscal year 2006, an increase of \$238.4 million, or 15.8%. The year-end balance reflects the increase in the net pension obligation related to the Public School Teachers' Pension and Retirement Fund of Chicago.
- **Other postemployment benefits (OPEB) liability** increased to \$425.1 in fiscal year 2007 from \$213.3 million in fiscal year 2006, an increase of \$211.8 million, or 99.3%. The year-end balance reflects the increase in net OPEB related to healthcare costs associated with the Public School Teachers' Pension and Retirement Fund of Chicago.
- **Other long-term liabilities** including current portion decreased to \$343.9 million in fiscal year 2007 from \$366.9 million in fiscal year 2006, a decrease of \$23 million, or 6.3%. The year-end balance reflects decreases in accrued sick pay and vacation pay of \$30.9 and \$5 million respectively, and increases in accrued workers' compensation, accrued general and automobile and tort liabilities of \$5.9 million, \$5.8 million and \$1.2 million, respectively.
- **CPS' net assets** decreased \$59 million to \$113.5 million. Of this amount, \$267 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of \$545 million are reported separately to present legal constraints from debt covenants and enabling legislation. The (\$699) 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, 2007.

The following table presents the changes in net assets from fiscal year 2006 to 2007:

**Changes in Net Assets**  
(Millions of dollars)

	Governmental Activities			
	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>% Change</u>
Revenues:				
Program Revenues:				
Charges for services . . . . .	\$ 13	\$ 12	\$ 1	8.3%
Operating grants and contributions . . . . .	863	897	(34)	-3.8%
Capital grants and contributions . . . . .	97	67	30	44.8%
Total Program Revenues . . . . .	<u>\$ 973</u>	<u>\$ 976</u>	<u>\$ (3)</u>	-0.3%
General Revenues:				
Property taxes . . . . .	\$1,813	\$1,768	\$ 45	2.5%
Replacement taxes . . . . .	201	185	16	8.6%
State aid . . . . .	1,652	1,532	120	7.8%
Interest and investment earnings . . . . .	154	77	77	100.0%
Gain on Sale of fixed assets . . . . .	23	—	23	100.0%
Miscellaneous . . . . .	163	74	89	120.3%
Total General Revenues . . . . .	<u>\$4,006</u>	<u>\$3,636</u>	<u>\$ 370</u>	10.2%
Total Revenues . . . . .	<u>\$4,979</u>	<u>\$4,612</u>	<u>\$ 367</u>	8.0%
Expenses:				
Instruction . . . . .	\$3,097	\$3,108	\$ (11)	-0.4%
Support services:				
Pupil support services . . . . .	361	346	15	4.3%
Administrative support services . . . . .	179	162	17	10.5%
Facilities support services . . . . .	461	423	38	9.0%
Instructional support services . . . . .	481	465	16	3.4%
Food services . . . . .	186	180	6	3.3%
Community services . . . . .	45	46	(1)	-2.2%
Interest expense . . . . .	220	218	2	0.9%
Other . . . . .	8	22	(14)	-63.6%
Total Expenses . . . . .	<u>\$5,038</u>	<u>\$4,970</u>	<u>\$ 68</u>	1.4%
Change in Net Assets . . . . .	<u>\$ (59)</u>	<u>\$ (358)</u>	<u>\$ 299</u>	-83.5%
Beginning Net Assets . . . . .	<u>173</u>	<u>531</u>	<u>(358)</u>	-67.4%
Ending Net Assets . . . . .	<u>\$ 114</u>	<u>\$ 173</u>	<u>\$ (59)</u>	-34.1%

- Net Assets decreased to \$114 million in fiscal year 2007 from \$173 million in fiscal year 2006, a decrease of \$59 million or 34.1%. Even though total revenues increased by \$367 million from fiscal year 2006, our expenditures exceeded our revenues in fiscal year 2007, primarily due to high pension and postemployment costs, which were \$238.4 million and \$211.8 million, respectively.

## Capital Assets

At June 30, 2007, the CPS had \$4.5 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 \$104.1 million or 2.4% over the prior fiscal year (\$000's).

	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>% Change</u>
Land . . . . .	\$ 248,713	\$ 244,147	\$ 4,566	1.9%
Buildings . . . . .	6,051,231	5,817,188	234,043	4.0%
Construction in progress . . . . .	354,531	367,733	(13,202)	-3.6%
Equipment . . . . .	149,045	122,626	26,419	21.5%
Total Capital Assets . . . . .	\$ 6,803,520	\$ 6,551,694	\$ 251,826	3.8%
Less: Accumulated depreciation . . . . .	(2,315,633)	(2,167,971)	(147,662)	6.8%
Total Capital Assets, net . . . . .	<u>\$ 4,487,887</u>	<u>\$ 4,383,723</u>	<u>\$ 104,164</u>	2.4%

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

## Debt and Capitalized Lease Obligations

In September 2006, CPS issued \$355,805,000 in Unlimited Tax General Obligation Bonds (Series 2006B) at a premium of \$14,443,983. 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 \$366,540,325 in the Capital Improvement Fund.

In February 2007, CPS entered into an interest rate swap with Royal Bank of Canada. The interest rate swap is associated with the Series 2000C and 2004C bonds. The intention of entering into the swap was to effectively change the variable interest rate on the Series 2000C and 2004C bonds to a fixed interest rate. Any swap payments payable by CPS will be paid from the General Operating Fund under the 2000C agreement and from the same revenue source pledged to the underlying bonds under the 2004C.

As of June 30, 2007, the CPS had \$4.89 billion in total debt, including accreted interest, and capitalized lease obligations outstanding versus \$4.64 billion last year, an increase of 5.4%. 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, 2007, net of bonds advance refunded or defeased is \$128 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, 2006, the funded ratio of the Pension Fund was 78% and the CPS has recorded an estimated pension liability of \$1.75 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 an \$80 million contribution to the Pension Fund under the statutory requirements during fiscal year 2007.

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 2007, as in previous fiscal years, the CPS paid a portion, 7%, or \$31.5 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 present a summary of the general operating fund, capital projects fund and debt service fund revenues and other financing sources by type and expenditures by program for the period ended June 30, 2007 as compared to June 30, 2006. They also depict the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

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

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>2007 Percent of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent Increase (Decrease) from 2006</u>
Revenues:					
Property taxes . . . . .	\$1,768	\$1,718	33.9%	\$ 50	2.9%
Replacement taxes . . . . .	201	185	3.9%	16	8.6%
State aid . . . . .	1,702	1,603	32.6%	99	6.2%
Federal aid . . . . .	746	776	14.3%	(30)	-3.9%
Investment income . . . . .	117	72	2.2%	45	62.5%
Other . . . . .	286	163	5.5%	123	75.5%
Subtotal . . . . .	<u>\$4,820</u>	<u>\$4,517</u>	<u>92.4%</u>	<u>\$303</u>	<u>6.7%</u>
Other financing sources . . . . .	396	401	7.6%	(5)	-1.2%
Total . . . . .	<u>\$5,216</u>	<u>\$4,918</u>	<u>100.0%</u>	<u>\$298</u>	<u>6.1%</u>
Expenditures:					
Instruction . . . . .	\$2,492	\$2,539	51.6%	\$ (47)	-1.9%
Pupil support services . . . . .	349	334	7.2%	15	4.5%
General support services . . . . .	914	895	18.9%	19	2.1%
Food services . . . . .	180	173	3.7%	7	4.0%
Community services . . . . .	45	46	0.9%	(1)	-2.2%
Teachers' pension . . . . .	156	75	3.2%	81	108.0%
Capital outlay . . . . .	346	311	7.2%	35	11.3%
Debt service . . . . .	342	213	7.1%	129	60.6%
Other . . . . .	8	23	0.2%	(15)	-65.2%
Total . . . . .	<u>\$4,832</u>	<u>\$4,609</u>	<u>100.0%</u>	<u>\$223</u>	<u>4.8%</u>
Change in Fund Balance . . . . .	<u>\$ 384</u>	<u>\$ 309</u>			

## General Operating Fund

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

### Revenues:

#### **Revenues and Other Financing Sources** (Millions of Dollars)

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>2007 Percent of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent Increase (Decrease) from 2006</u>
Property taxes . . . . .	\$1,716	\$1,666	40.1%	\$ 50	3.0%
Replacement taxes . . . . .	147	132	3.4%	15	11.4%
State aid . . . . .	1,549	1,492	36.2%	57	3.8%
Federal aid . . . . .	712	758	16.6%	(46)	-6.1%
Investment income . . . . .	62	37	1.4%	25	67.6%
Other . . . . .	96	101	2.2%	(5)	-5.0%
Subtotal . . . . .	\$4,282	\$4,186	99.9%	\$ 96	2.3%
Other financing sources . . . . .	2	4	0.1%	(2)	-50.0%
Total . . . . .	<u>\$4,284</u>	<u>\$4,190</u>	<u>100.0%</u>	<u>\$ 94</u>	<u>2.2%</u>

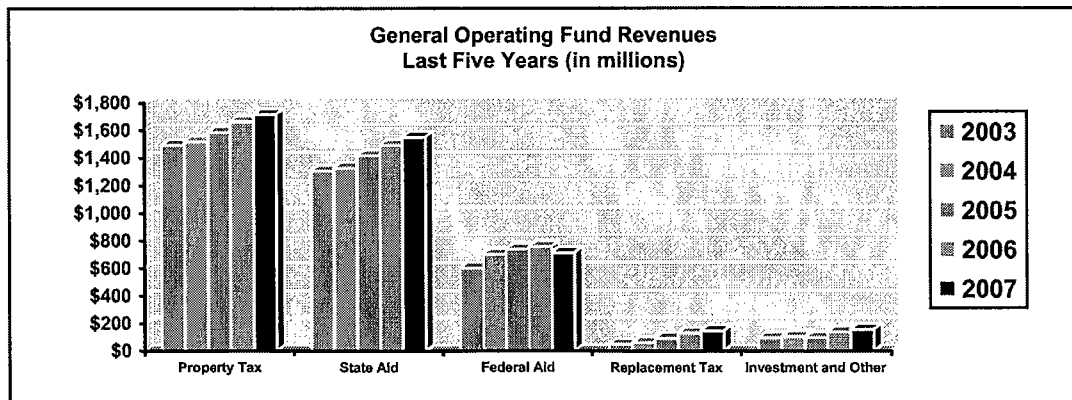
**Property taxes** increased by \$50.4 million from fiscal year 2006 due to a growing tax base, increases in tax levies and new construction.

**Personal property replacement taxes** increased \$15.7 million from fiscal year 2006, due to increased collections as a result of higher corporate profits.

**State aid** increased by \$57.1 million due to a \$170 per pupil increase in foundation level, up to \$5,334 per student.

**Federal aid** decreased \$45.7 million due to decreased spending on E-rate maintenance projects and less federal grant funds.

**Investment income** increased \$24.7 million from fiscal year 2006, due to higher interest rates and higher cash balances.





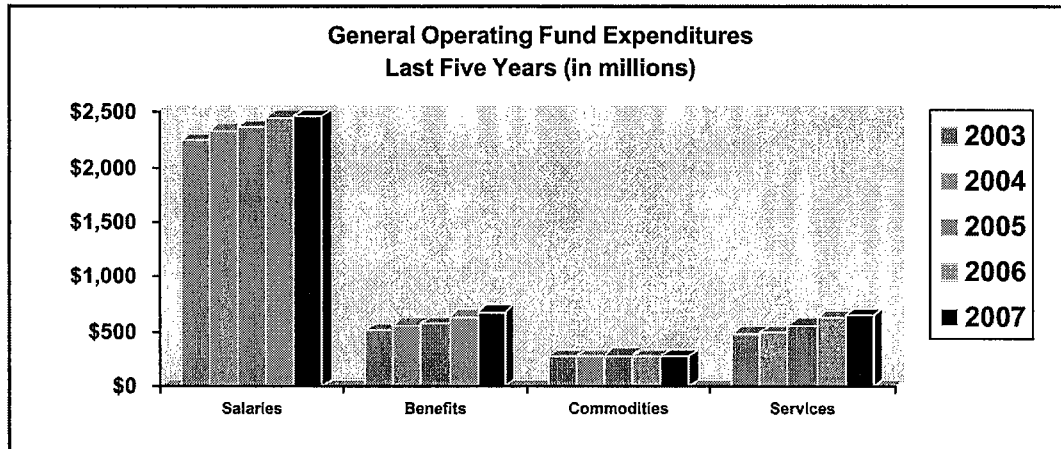
**Expenditures:**

*(Millions of Dollars)*

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>2007 Percent of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent Increase (Decrease) from 2006</u>
Salaries .....	\$2,459	\$2,454	59.3%	\$ 5	0.2%
Benefits .....	675	635	16.3%	40	6.3%
Commodities .....	274	277	6.6%	(3)	-1.1%
Services .....	650	623	15.7%	27	4.3%
Other .....	88	96	2.1%	(8)	-8.3%
Total .....	<u>\$4,146</u>	<u>\$4,085</u>	<u>100.0%</u>	<u>\$61</u>	1.5%

Total expenditures increased by \$61 million, primarily due to the increase in:

- Salaries — Teachers received a 4% salary increase; however this increase was offset by the large number of teachers that retired and were replaced by new teachers at lower salaries and also due to a decrease in student enrollment.
- Benefit charges increased by \$40 million due to an increase in teacher's pension costs of \$35 million and hospitalization costs of \$8 million and a decrease in career service pension costs of \$4 million.
- Services increased by \$27 million due to an expansion of Charter schools.



## Capital Projects Fund

The capital projects fund reflects the revenues and expenditures for CPS' capital projects.

### Revenues and Other Financing Sources (Millions of Dollars)

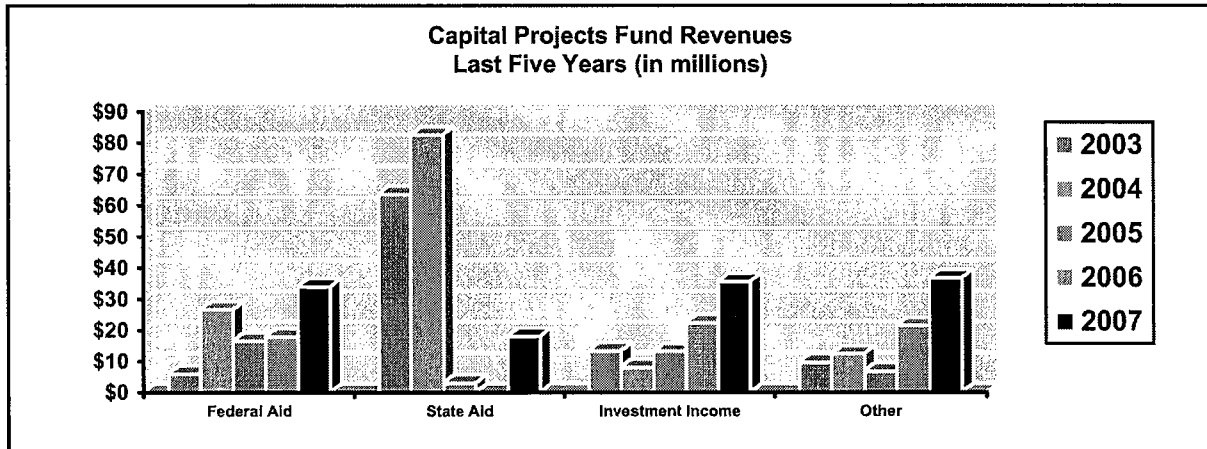
	2007 Amount	2006 Amount	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease) from 2006
State aid .....	\$ 18	\$ —	3.5%	\$18	100.0%
Federal aid .....	34	18	6.5%	16	88.9%
Investment income .....	36	22	6.9%	14	63.6%
Other .....	37	22	7.1%	15	68.2%
Subtotal .....	\$125	\$ 62	24.0%	\$63	101.6%
Other financing sources .....	396	394	76.0%	2	0.5%
Total .....	<u>\$521</u>	<u>\$456</u>	<u>100.0%</u>	<u>\$65</u>	14.3%

**State aid** increased \$18 million to provide additional funding to capital projects.

**Federal aid** increased \$16 million due to increased funding for capital projects.

**Investment income** increased \$14 million from fiscal year 2006, due to higher interest rates and higher cash balances.

**Other income** increased \$15 million from fiscal year 2006, due to the fact that the City of Chicago issued general obligation bonds, series 2007 A-K, and proceeds from these bonds are being used to finance the construction and improvement of elementary and high schools that are part of CPS' school system.

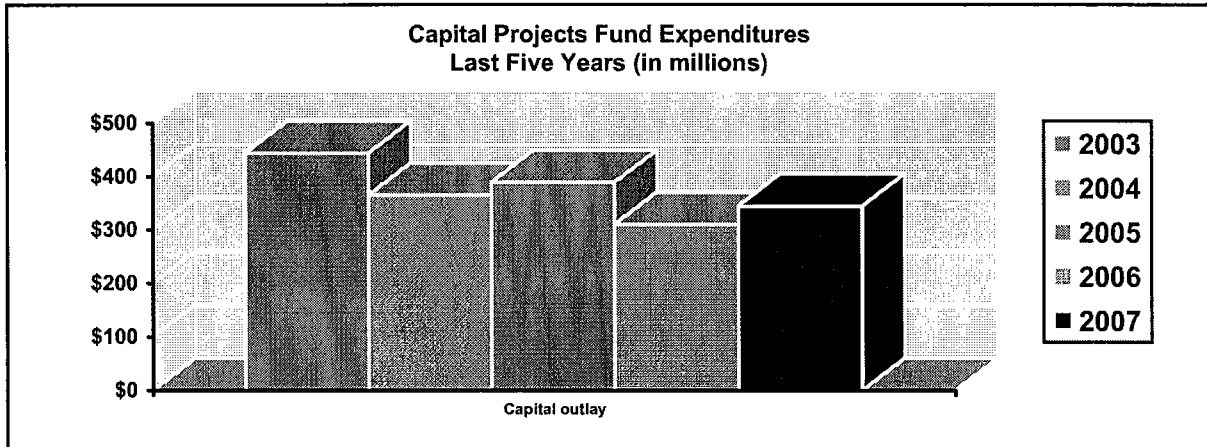


**Expenditures:**

**(Millions of Dollars)**

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>2007 Percent of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent Increase (Decrease) from 2006</u>
Capital Outlay .....	\$345	\$311	100%	\$34	10.9%

**Capital Outlay** increased by \$34 million due to the continuation of the Capital Improvement Program.



## Debt Service Fund

The debt service fund reflects the property tax revenues and other revenues that are used for the payment of principal and interest and redemption for general obligation bonds and for lease payment to the Public Building Commission.

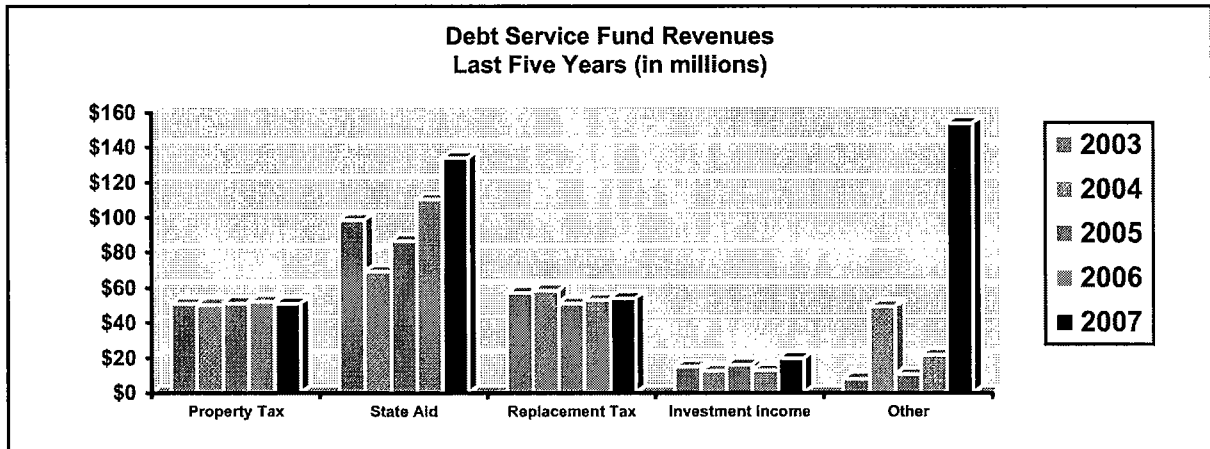
### Revenues and Other Financing Sources (Millions of Dollars)

	2007 Amount	2006 Amount	2007 Percent of Total	Increase (Decrease) from 2006	Percent Increase (Decrease) from 2006
Property taxes . . . . .	\$ 51	\$ 52	12.4%	\$ (1)	-1.9%
Replacement taxes . . . . .	54	53	13.2%	1	1.9%
State aid . . . . .	134	110	32.7%	24	21.8%
Investment income . . . . .	19	13	4.6%	6	46.2%
Other . . . . .	154	41	37.6%	113	275.6%
Subtotal . . . . .	\$412	\$269	100.5%	\$143	53.2%
Other financing sources (uses) . . . . .	(2)	2	-0.5%	(4)	-200.0%
Total . . . . .	<u>\$410</u>	<u>\$271</u>	<u>100.0%</u>	<u>\$139</u>	51.3%

**State aid** increased by \$24 million to provide debt service for new general obligation bonds.

**Investment income** increased \$6 million from fiscal year 2006, due to higher interest rates and higher cash balances

**Other income** increased \$113 million from fiscal year 2006 due to the fact that the City of Chicago issued general obligation bonds Series A-K, and proceeds from these bonds in the amount of \$103 million were used to defease CPS' general obligation bonds, Series 2004F, Series 2004H and series 2005C and the swap proceeds increased by \$6 million from fiscal year 2006.

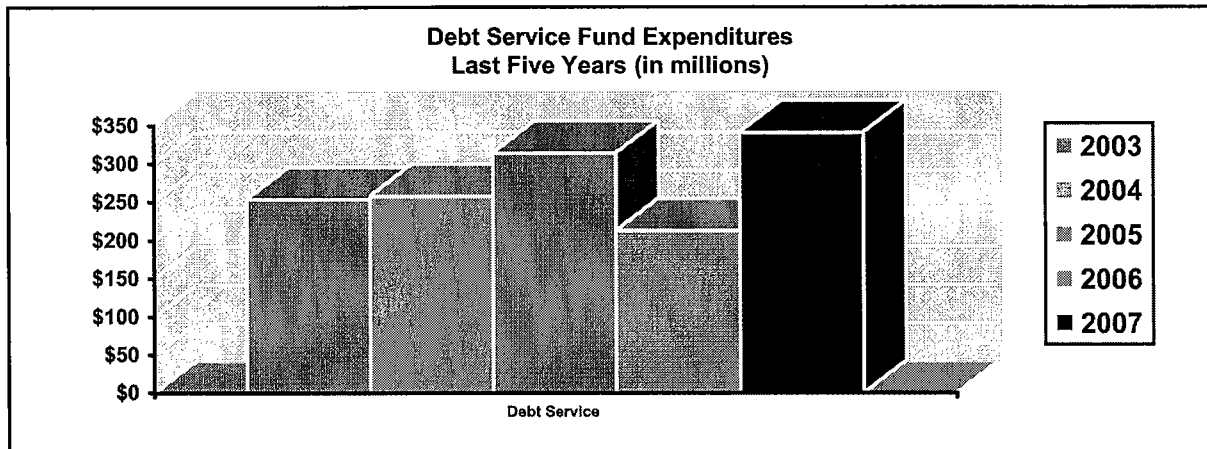


**Expenditures:**

*(Millions of Dollars)*

	<u>2007 Amount</u>	<u>2006 Amount</u>	<u>2007 Percent of Total</u>	<u>Increase (Decrease) from 2006</u>	<u>Percent Increase (Decrease) from 2006</u>
Debt service .....	\$341	\$213	100%	\$128	60.1%

**Debt Service** increased by \$128 million due to the defeasance of CPS' bonds series 2004F, 2004H and 2005C and required principal and interest payments.



**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. These transfers are reflected in the schedule shown below. During fiscal year 2007 there were no amendments to the original budget.

The following schedule also presents a summary of the general operating fund revenues and other financing sources by type and expenditures for the period ended June 30, 2007 compared to the final budget as of June 30, 2007.

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

	<u>FY 2007 Approved Budget</u>	<u>Transfers In/(Out)</u>	<u>Final Appropriations</u>	<u>FY 2007 Actual</u>	<u>Variance</u>
Revenues:					
Property taxes . . . . .	\$1,697	\$ —	\$1,697	\$1,717	\$ 20
Replacement taxes . . . . .	91	—	91	147	56
State aid . . . . .	1,584	—	1,584	1,549	(35)
Federal aid . . . . .	835	—	835	712	(123)
Investment income . . . . .	21	—	21	62	41
Other . . . . .	<u>73</u>	<u>—</u>	<u>73</u>	<u>95</u>	<u>22</u>
Subtotal . . . . .	\$4,301	\$ —	\$4,301	\$4,282	\$ (19)
Other financing sources . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>
Total . . . . .	<u>\$4,301</u>	<u>\$ —</u>	<u>\$4,301</u>	<u>\$4,284</u>	<u>\$ (17)</u>
Expenditures:					
Salaries . . . . .	\$2,514	\$ (5)	\$2,509	\$2,459	\$ (50)
Benefits . . . . .	738	26	764	675	(89)
Services . . . . .	569	104	673	650	(23)
Commodities . . . . .	268	42	310	274	(36)
Other fixed charges . . . . .	<u>317</u>	<u>(167)</u>	<u>150</u>	<u>88</u>	<u>(62)</u>
Total . . . . .	<u>\$4,406</u>	<u>\$ —</u>	<u>\$4,406</u>	<u>\$4,146</u>	<u>\$(260)</u>
Change in Fund Balance . . . . .	<u>\$ (105)</u>			<u>\$ 138</u>	

Actual General Fund revenues were \$17 million lower than the budgeted amount. The variance is primarily due to:

- Replacement tax revenue is \$56 million over budget due to higher corporate profits.
- State aid is \$35 million lower than budget due to delays in making state aid scheduled payments.
- Federal aid is \$123 million lower than budget due to aggressive budgeting of federal revenues based on potential grant awards.
- Investment income is \$41 million over budget due to higher interest rates and higher cash balances.

Actual General Fund expenditures were \$260 million under budget. The variance is primarily due to:

- Salaries expenditure was under budget by \$50 million due to teacher's salaries, which were under by \$25 million and career service salaries which were also under budget by \$25 million.
- Benefit charges expenditure was under budget by \$89 million due to Teachers pension costs, Career service pension costs, unemployment compensation costs, hospitalization costs and workers' compensation costs which were under budget by \$15 million, \$7 million, \$9 million, \$50 million and \$9 million, respectively.
- Services expenditure was under budget by \$23 million due to lower spending for professional services and tuition of \$17 million and \$10 million, respectively.
- Commodities expenditure was under budget by \$36 million due to reduced spending on food, textbooks and supplies of \$10 million, \$16 million and \$6 million, respectively.
- Other Fixed charges expenditure was under budget by \$62 million due to less spending of federal, state and supplemental general state aid by schools.

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.

In August 2007, the Board adopted a balanced budget for fiscal year 2008 that reflected total resources, including \$109 million of available fund balances, and appropriations of \$4.65 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, 2007**

**(Thousands of Dollars)**

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and investments .....	\$1,187,856
Cash and investments in escrow .....	971,697
Cash and investments held in school internal accounts .....	30,123
Property taxes receivable, net of allowance .....	973,942
Other receivables:	
Replacement taxes .....	35,576
State aid, net of allowance .....	398,071
Federal aid .....	152,336
Other .....	65,612
Other assets .....	33,301
Total Current Assets: .....	<u>\$3,848,514</u>
Non-current Assets:	
Land and construction in progress .....	603,244
Buildings, building improvements and equipment, net of accumulated depreciation . . .	3,884,643
Total Assets .....	<u><u>\$8,336,401</u></u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable .....	\$ 257,354
Accrued payroll and benefits .....	542,831
Amount held for student activities .....	30,123
Other accrued liabilities .....	337
Deferred revenue .....	1,285
Interest payable .....	36,997
Current portion of long-term debt and capitalized lease obligations .....	65,426
Total Current Liabilities: .....	<u>\$ 934,353</u>
Long-term liabilities:	
Debt, net of premiums and discounts .....	4,414,197
Capitalized lease obligations .....	414,315
Pension .....	1,751,427
Other postemployment benefits .....	425,104
Other benefits and claims .....	283,456
Total Liabilities .....	<u><u>\$8,222,852</u></u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt .....	\$ 267,249
Restricted for:	
Debt service .....	413,747
Specific purposes .....	131,362
Unrestricted .....	(698,809)
Total Net Assets .....	<u><u>\$ 113,549</u></u>

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



**CHICAGO PUBLIC SCHOOLS**  
**Chicago Board of Education**

**STATEMENT OF ACTIVITIES**

**For the Fiscal Year Ended June 30, 2007**

**(Thousands of Dollars)**

		Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Aseets
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction . . . . .	\$3,096,529	\$ 3,748	\$465,044	\$62,638	\$(2,565,099)
Support services:					
Pupil support services . . . . .	360,628	—	29,743	8,782	(322,103)
Administrative support					
services . . . . .	178,891	—	52,420	4,356	(122,115)
Facilities support services . . .	461,265	—	12,474	8,884	(439,907)
Instructional support					
services . . . . .	481,477	—	117,567	9,739	(354,171)
Food services . . . . .	186,297	8,784	153,124	2,457	(21,932)
Community services . . . . .	45,203	—	32,302	621	(12,280)
Interest expense . . . . .	219,826	—	—	—	(219,826)
Other . . . . .	8,126	—	—	—	(8,126)
Total Governmental					
Activities . . . . .	<u>\$5,038,242</u>	<u>\$12,532</u>	<u>\$862,674</u>	<u>\$97,477</u>	<u>\$(4,065,559)</u>
General Revenues:					
Taxes:					
Property taxes . . . . .					\$1,813,006
Replacement taxes . . . . .					201,509
Non-program State aid . . . . .					1,651,730
Interest and investment earnings . . . . .					116,907
Swaption . . . . .					37,647
Gain on sale of fixed assets . . . . .					22,919
Miscellaneous . . . . .					162,779
Total General Revenues . . . . .					<u>\$4,006,497</u>
Change in net assets . . . . .					\$ (59,062)
Net assets — beginning . . . . .					172,611
Net assets — ending . . . . .					\$ 113,549

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, 2007**

**(Thousands of Dollars)**

	<u>General Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
<b>ASSETS:</b>				
Cash and investments . . . . .	\$1,080,948	\$ —	\$106,908	\$1,187,856
Cash and investments in escrow . . . . .	5,803	665,839	300,055	971,697
Cash and investments held in school internal accounts . . . . .	30,123	—	—	30,123
Receivables:				
Property taxes, net of allowance . . . . .	946,301	—	27,641	973,942
Replacement taxes . . . . .	35,576	—	—	35,576
State aid, net of allowance . . . . .	398,021	50	—	398,071
Federal aid . . . . .	149,462	2,874	—	152,336
Other . . . . .	10,860	47,184	7,568	65,612
Due from other funds . . . . .	27,884	32,304	25,823	86,011
Other assets . . . . .	6,375	—	—	6,375
Total Assets . . . . .	<u>\$2,691,353</u>	<u>\$748,251</u>	<u>\$467,995</u>	<u>\$3,907,599</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable . . . . .	\$ 230,096	\$ 24,643	\$ 17,356	\$ 272,095
Accrued payroll and benefits . . . . .	483,047	—	—	483,047
Amount held for student activities . . . . .	30,123	—	—	30,123
Due to other funds . . . . .	58,127	27,884	—	86,011
Deferred property tax revenue . . . . .	934,378	—	27,292	961,670
Other deferred revenue . . . . .	321,646	15,211	—	336,857
Total Liabilities . . . . .	<u>\$2,057,417</u>	<u>\$ 67,738</u>	<u>\$ 44,648</u>	<u>\$2,169,803</u>
<b>FUND BALANCES:</b>				
Reserved:				
Reserved for encumbrances . . . . .	\$ 97,731	\$199,068	\$ —	\$ 296,799
Reserved for restricted donations . . . . .	1,765	—	—	1,765
Reserved for specific purposes . . . . .	129,597	—	—	129,597
Reserved for debt service . . . . .	—	—	264,867	264,867
Unreserved:				
Designated to provide operating capital . . . . .	233,200	—	—	233,200
Undesignated . . . . .	171,643	481,445	158,480	811,568
Total Fund Balances . . . . .	<u>\$ 633,936</u>	<u>\$680,513</u>	<u>\$423,347</u>	<u>\$1,737,796</u>
Total Liabilities and Fund Balances . . . . .	<u>\$2,691,353</u>	<u>\$748,251</u>	<u>\$467,995</u>	<u>\$3,907,599</u>

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

**CHICAGO PUBLIC SCHOOLS**  
**Chicago Board of Education**

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

**June 30, 2007**

**(Thousands of Dollars)**

Total fund balances — governmental funds .....	\$ 1,737,796
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 .....	105
Deferred charges — bond issuance costs .....	26,820
The cost of capital assets (land, buildings and improvements and equipment) purchased or constructed is reported as an expenditure in the governmental funds. The Statement of Net Assets includes those capital assets among the assets of the CPS as a whole. The cost of those capital assets are allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in the governmental funds.	
Cost of capital assets .....	6,803,520
Accumulated depreciation .....	(2,315,633)
Liabilities applicable to the CPS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest payable on debt and other long-term obligations is not recorded in the governmental funds but they are reported in the Statement of Net Assets. All liabilities, both current and long-term, are reported in the Statement of Net Assets.	
Other accrued liabilities .....	\$ (337)
Debt, net of premiums and discounts .....	(4,455,603)
Capitalized lease obligations .....	(438,335)
Pension .....	(1,751,427)
Other postemployment benefits .....	(425,104)
Other benefits and claims .....	<u>(343,990)</u>
	(7,414,796)
Interest payable .....	(21,505)
Revenues that have been deferred or unearned in the governmental funds because they are not available but are recognized as revenue in the government-wide financial statements.	
Deferred property tax revenue .....	961,670
Other deferred revenue .....	<u>335,572</u>
Net Assets .....	<u>\$ 113,549</u>

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

**CHICAGO PUBLIC SCHOOLS**  
**Chicago Board of Education**

**STATEMENT OF REVENUES, EXPENDITURES AND NET CHANGES IN  
FUND BALANCES — GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2007**  
**With Comparative Amounts for the Fiscal Year Ended June 30, 2006**  
**(Thousands of Dollars)**

	<b>General Operating Fund</b>	<b>Capital Projects Fund</b>	<b>Debt Service Fund</b>	<b>Total Fiscal Year Ended June 30, 2007</b>	<b>Total Fiscal Year Ended June 30, 2006</b>
<b>REVENUES:</b>					
Property taxes . . . . .	\$1,716,516	\$ —	\$ 51,244	\$1,767,760	\$1,718,249
Replacement taxes . . . . .	147,403	—	54,106	201,509	184,700
State aid . . . . .	1,549,493	18,070	134,022	1,701,585	1,602,635
Federal aid . . . . .	711,963	34,066	—	746,029	775,631
Interest and investment income . . . . .	61,595	35,587	19,725	116,907	71,947
Other . . . . .	95,534	36,899	153,797	286,230	163,765
<b>Total Revenues . . . . .</b>	<b>\$4,282,504</b>	<b>\$ 124,622</b>	<b>\$412,894</b>	<b>\$4,820,020</b>	<b>\$4,516,927</b>
<b>EXPENDITURES:</b>					
Instruction . . . . .	\$2,491,653	\$ —	\$ —	\$2,491,653	\$2,538,909
Pupil support services . . . . .	349,324	—	—	349,324	333,968
Administration support services . . . . .	173,283	—	—	173,283	155,980
Facilities support services . . . . .	353,410	—	—	353,410	357,106
Instructional support services . . . . .	387,424	—	—	387,424	379,955
Food services . . . . .	179,902	—	—	179,902	172,774
Community services . . . . .	45,467	—	—	45,467	46,179
Teacher's pension and retirement benefits . . . . .	155,563	—	—	155,563	75,398
Capital outlay . . . . .	948	345,015	—	345,963	310,817
Debt service . . . . .	1,269	—	340,910	342,179	214,652
Other . . . . .	8,126	—	—	8,126	23,404
<b>Total Expenditures . . . . .</b>	<b>\$4,146,369</b>	<b>\$ 345,015</b>	<b>\$340,910</b>	<b>\$4,832,294</b>	<b>\$4,609,142</b>
<b>REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES . . . . .</b>	<b>\$ 136,135</b>	<b>\$(220,393)</b>	<b>\$ 71,984</b>	<b>\$ (12,274)</b>	<b>\$ (92,215)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Gross amounts from debt issuances . . . . .	\$ —	\$ 355,805	\$ —	\$ 355,805	\$ 385,603
Premiums . . . . .	—	14,444	—	14,444	4,124
Discounts . . . . .	—	—	—	—	(326)
Capital leases . . . . .	—	—	—	—	3,700
Sales of general capital assets . . . . .	—	25,673	—	25,673	7,596
Transfers in/(out) . . . . .	1,904	—	(1,904)	—	—
<b>Total other financing sources (uses) . . . . .</b>	<b>\$ 1,904</b>	<b>\$ 395,922</b>	<b>\$ (1,904)</b>	<b>\$ 395,922</b>	<b>\$ 400,697</b>
<b>NET CHANGE IN FUND BALANCES . . . . .</b>	<b>\$ 138,039</b>	<b>\$ 175,529</b>	<b>\$ 70,080</b>	<b>\$ 383,648</b>	<b>\$ 308,482</b>
Fund Balances, beginning of period . . . . .	495,897	504,984	353,267	1,354,148	1,045,666
<b>Fund Balances, end of period . . . . .</b>	<b>\$ 633,936</b>	<b>\$ 680,513</b>	<b>\$423,347</b>	<b>\$1,737,796</b>	<b>\$1,354,148</b>

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, 2007**  
**(Thousands of Dollars)**

Total net change in fund balances — governmental funds . . . . .	\$ 383,648
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 . . . . .	\$ 269,692
Depreciation expense . . . . .	<u>(162,775)</u> 106,917
Proceeds from sales of bonds are reported in the governmental funds as a source of financing, whereas they are recorded as long-term liabilities in the Statement of Net Assets . . . . .	(355,805)
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 . . . . .	155,835
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 . . . . .	(51,626)
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 . . . . .	(4,319)
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 . . . . .	45,245
Grants . . . . .	90,998
In the Statement of Activities, 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.	
Legal settlements . . . . .	(1,250)
Sick pay . . . . .	30,927
Vacation pay . . . . .	5,067
Workers' compensation . . . . .	(5,908)
General and automobile liability . . . . .	(5,845)
Net pension obligation . . . . .	(238,404)
Other postemployment benefits . . . . .	(211,788)
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 . . . . .	<u>(2,754)</u>
Change in Net Assets . . . . .	<u>\$ (59,062)</u>

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

**CHICAGO PUBLIC SCHOOLS**  
**Chicago Board of Education**

**STATEMENT OF REVENUES, EXPENDITURES BY OBJECT,  
OTHER FINANCING SOURCES AND NET CHANGES IN FUND BALANCE  
FINAL APPROPRIATIONS VS. ACTUAL — GENERAL OPERATING FUND  
For the Fiscal Year Ended June 30, 2007  
(Thousands of Dollars)**

	Approved Budget	Transfers In/(Out)	Final Appropriations	Fiscal Year Actual	Variance
<b>REVENUES:</b>					
Property taxes . . . . .	\$1,696,562	\$ —	\$1,696,562	\$1,716,516	\$ 19,954
Replacement taxes . . . . .	91,494	—	91,494	147,403	55,909
State aid . . . . .	1,584,030	—	1,584,030	1,549,493	(34,537)
Federal aid . . . . .	834,910	—	834,910	711,963	(122,947)
Interest and investment income . . . . .	21,283	—	21,283	61,595	40,312
Other . . . . .	72,443	—	72,443	95,534	23,091
Total Revenues . . . . .	<u>\$4,300,722</u>	<u>\$ —</u>	<u>\$4,300,722</u>	<u>\$4,282,504</u>	<u>\$ (18,218)</u>
<b>EXPENDITURES:</b>					
Salaries —					
Teachers . . . . .	\$1,986,556	\$ (37,359)	\$1,949,197	\$1,924,109	\$ 25,088
Career services . . . . .	527,271	32,462	559,733	535,148	24,585
Commodities —					
Energy . . . . .	83,268	(3,335)	79,933	77,133	2,800
Food . . . . .	92,454	1,308	93,762	83,798	9,964
Textbooks . . . . .	61,999	20,290	82,289	65,772	16,517
Supplies . . . . .	29,356	22,803	52,159	45,945	6,214
Other . . . . .	1,202	336	1,538	1,072	466
Services —					
Professional fees . . . . .	258,293	81,496	339,789	322,252	17,537
Charter schools . . . . .	4,453	139,742	144,195	141,030	3,165
Transportation . . . . .	82,289	10,756	93,045	97,076	(4,031)
Tuition . . . . .	211,771	(138,155)	73,616	63,103	10,513
Telephone and telecommunications . . . . .	4,508	1,215	5,723	13,701	(7,978)
Other . . . . .	8,079	8,813	16,892	13,271	3,621
Equipment — Educational . . . . .	15,245	25,588	40,833	34,614	6,219
Building and sites —					
Repairs and replacements . . . . .	35,192	3,070	38,262	32,973	5,289
Capital outlay . . . . .	—	45	45	5	40
Fixed charges —					
Teachers' pension . . . . .	291,640	5,666	297,306	282,488	14,818
Career service pension . . . . .	84,759	5,155	89,914	83,317	6,597
Hospitalization and dental insurance . . . . .	302,840	(2,230)	300,610	250,765	49,845
Medicare . . . . .	24,773	789	25,562	25,279	283
Unemployment compensation . . . . .	10,914	6,364	17,278	8,236	9,042
Workers compensation . . . . .	23,099	10,725	33,824	24,619	9,205
Rent . . . . .	10,171	2,788	12,959	12,965	(6)
Debt service . . . . .	1,420	—	1,420	1,269	151
Other . . . . .	254,170	(198,332)	55,838	6,429	49,409
Total Expenditures . . . . .	<u>\$4,405,722</u>	<u>\$ —</u>	<u>\$4,405,722</u>	<u>\$4,146,369</u>	<u>\$ 259,353</u>
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES . . . . .	<u>\$ (105,000)</u>	<u>\$ —</u>	<u>\$ (105,000)</u>	<u>\$ 136,135</u>	<u>\$ 241,135</u>
<b>OTHER FINANCING SOURCES</b>					
Transfers in . . . . .	—	—	—	1,904	1,904
Total other financing sources . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,904</u>	<u>\$ 1,904</u>
NET CHANGE IN FUND BALANCE . . . . .	<u>\$ (105,000)</u>	<u>\$ —</u>	<u>\$ (105,000)</u>	<u>\$ 138,039</u>	<u>\$ 243,039</u>
Fund Balance, beginning of period . . . . .	495,897	—	495,897	495,897	—
Fund Balance, end of period . . . . .	<u>\$ 390,897</u>	<u>\$ —</u>	<u>\$ 390,897</u>	<u>\$ 633,936</u>	<u>\$ 243,039</u>

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

**CHICAGO PUBLIC SCHOOLS**  
**Chicago Board of Education**

**NOTES TO BASIC FINANCIAL STATEMENTS**

**June 30, 2007**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**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 2007, CPS adopted the following GASB Statements:

- GASBS 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which had no impact on the current year financial statements.
- GASBS 50, *Pension Disclosures — An Amendment of GASB Statements No. 25 and No. 27*. Please refer to Note 12, Pensions and Other Postemployment Benefits for required disclosures.

Other accounting standards that CPS is currently reviewing for applicability include:

- GASBS 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for CPS with its year ended June 30, 2009. This statement addresses accounting and financial reporting for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessment and cleanups.
- GASBS 51, *Accounting and Financial Reporting for Intangible Assets*, effective for CPS with its year ended June 30, 2011. This statement establishes accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby, enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

**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

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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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. 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 \$41 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



## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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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.

### **Assets, Liabilities, and Net Assets or Equity**

#### *Deposits and Investments*

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

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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### *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 2006 property taxes were levied for fiscal year 2007 in December 2006, and were billed in fiscal year 2007. In 2007, the installment due dates were March 1 and December 3. Property taxes unpaid after these dates accrue interest at the rate of 1.5% per month. The treasurers of Cook and DuPage counties, who distribute such receipts to the CPS, receive collections of property tax installments. The CPS' property tax becomes a lien on real property on January 1 of the year for which it is levied. The levy becomes an enforceable lien against the property as of January 1 of the levy year. CPS does not record a receivable nor related deferred revenue until the Board passes the levy for the current fiscal year.

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

### *Capital Assets*

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

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

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

Beginning in fiscal year 2005, CPS implemented procedures related to impaired assets. Generally, a capital asset is considered impaired when its service utility has declined significantly and the events or changes in the circumstances are unexpected or outside the normal life cycle. There were no capital asset impairments during fiscal year 2007.

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

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

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

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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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 instead of average daily wage as used in prior years.

### *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.

### *Swaps*

CPS enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

### *Fund Balances and Net Assets*

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 includes the following:

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

*Restricted for 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 has 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.

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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Expenditures related to charter schools that were included under the professional services expenditure line in the previous year were reclassified to conform with current year presentation in the Statement of Revenues, Expenditures by Object and Other Financing Sources and Net Changes in Fund Balances.

*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.

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**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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**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 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.

During fiscal year 2007 the expenditures in the debt service fund were over budget by \$77.2 million due to the defeasance of general obligation bonds series 2004F, 2004H and 2005C with revenues received from the City of Chicago for this purpose.

In August 2007, the Board adopted a balanced budget for fiscal year 2008 that reflected total resources, including \$109 million of available reserved fund balances, and appropriations of \$4.65 billion for the General Operating Fund.

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 2007. Actual expenditures in the Capital Projects Fund include expenditures on projects that were budgeted in the current and prior fiscal years.

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**NOTE 3. PROPERTY TAXES AND STATE AID REVENUE**

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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

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

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 are recorded in the year of receipt without impacting receivable and deferred revenue balances. CPS maintains the accounts receivable, reserves for uncollectibles and deferred revenue balance on the general ledger for three tax levy years. All refunds, no matter what tax year they apply, are recorded against the property tax revenue and cash accounts in the period of occurrence or notification from the respective county treasurer.

Legal limitations on tax rates and the rates extended in calendar years 2007 and 2006 are shown below.

		Tax Rates	
	Maximum 2006 Legal Limit	Extended Per \$100 of EAV	
		2007	2006
<b>General Operating Fund:</b>			
Educational . . . . .	(A)	\$2.078	\$2.143
Workers' and Unemployment Compensation/Tort Immunity . . . . .	(B)	.021	.228
Public Building Commission Operations and Maintenance . . . . .	(B)	.521	.565
<b>Debt Service Fund:</b>			
Public Building Commission Leases Program . . . . .	(B)	.077	.090
		<u>\$2.697</u>	<u>\$3.026</u>

- A. The 2007 Educational tax rate is limited to the sum of \$2.621 per \$100 of EAV plus the difference (the "difference tax") between \$.50 per \$100 of EAV and the rate of taxes extended for the Chicago 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
<b>Revenues:</b>		
General State Aid Unrestricted . . . . .	\$ 779,174	\$ 779,107
Supplementary General State Aid . . . . .	261,000	261,000
General Education Block Grant . . . . .	155,029	155,029
Educational Services Block Grant . . . . .	384,149	442,112
Other Restricted State Revenue . . . . .	122,233	122,478
Total State Aid . . . . .	<u>\$1,701,585</u>	<u>\$1,759,726</u>
<b>Program Revenues:</b>		
Operating Grants and Contributions . . . . .		(107,936)
Capital Grants and Contributions . . . . .		(60)
Non-Program General State Aid . . . . .		<u>\$1,651,730</u>

**NOTE 4. CASH DEPOSITS AND INVESTMENTS**

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

**Cash**

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

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

As of June 30, 2007, the book amount of the CPS' deposit accounts was \$33.9 million. The bank balances totaled \$59.2 million as of June 30, 2007. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2007. 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.

**NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)****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.
- **Diversification.** The investment portfolio shall be diversified to avoid incurring unreasonable risks associated with specific securities or financial institutions.

At June 30, 2007, the CPS had the following investments (\$000's) and maturities:

<b>Investment Type</b>	<b>Ratings</b>	<b>Carrying Amount</b>	<b>Maturities Less Than 1 Year</b>	<b>Maturities 1-5 Years</b>
Repurchase Agreements . . . . .	AAA	\$ 101,466	\$ 101,466	\$ —
U.S. Government Agency Securities . . . . .	AAA	1,129,387	851,577	277,810
Commercial Paper . . . . .	A1 or A1+/P-1	278,856	278,856	—
Money Market Mutual Funds . . . . .	AAA	646,069	646,069	—
Total Investments . . . . .		\$2,155,778	<u>\$1,877,968</u>	<u>\$277,810</u>
Cash . . . . .		33,898		
Total Cash and Investments . . . . .		<u>\$2,189,676</u>		

**Credit Risk** — State law and the CPS' Investment Policy limit investment in repurchase agreements, unless registered or inscribed in the name of the Board, to those purchased through banks or trust companies authorized to do business in the State of Illinois. State law and the CPS' Investment Policy limit investment in commercial paper to the top two ratings issued by at least two standard rating services. As of June 30, 2007, CPS' investments in commercial paper were rated A1+ or A1 by Moody's Investment Service and P-1 by Standard and Poor's. As of June 30, 2007, Standard and Poor's rated the CPS' investments in money market mutual funds AAA as required by the CPS' Investment Policy.

**Concentration of Credit Risk** — As of June 30, 2007 there were no investments in any one issuer that represent 5% or more of the total investments. Investments issued by the U.S. government and investment in mutual funds are excluded from the concentration of credit risk.

**Custodial Risk** — During the fiscal year ended June 30, 2007, 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)**

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

The following table provides a summary of CPS' total cash and investments as of June 30, 2007 (\$000's):

<u>Fund:</u>	<u>Amount</u>
General Operating Fund .....	\$1,116,874
Capital Projects Fund .....	665,839
Debt Service Fund .....	406,963
Total Cash and Investments .....	<u>\$2,189,676</u>

**NOTE 5. RECEIVABLES**

Receivables as of June 30, 2007 for the CPS, net of the applicable allowance for uncollectible accounts, are as follows (\$000's):

	<u>Fund Financial Statements</u>	<u>Government- Wide Financial Statements</u>
Property taxes .....	\$1,039,558	\$1,039,558
Replacement taxes .....	35,576	35,576
State aid .....	401,912	401,912
Federal aid .....	152,336	152,336
Other .....	68,369	68,369
Total Receivables .....	<u>\$1,697,751</u>	<u>\$1,697,751</u>
Less: Allowance for uncollectibles — property tax .....	(65,616)	(65,616)
Less: Allowance for uncollectibles — state aid .....	(3,841)	(3,841)
Less: Allowance for uncollectibles — other .....	<u>(2,757)</u>	<u>(2,757)</u>
Total Receivables, net. ....	<u>\$1,625,537</u>	<u>\$1,625,537</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, 2007, the components of deferred revenue reported in the fund financial statements are as follows (\$000's):

Deferred property taxes .....	\$ 961,670
Other deferred revenue .....	336,857
Total Deferred Revenue .....	<u>\$1,298,527</u>



**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2007 was as follows (\$000's):

<b>Government-wide activities:</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases and Transfers to In-service</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Land .....	\$ 244,148	\$ 11,704	\$ (7,139)	\$ 248,713
Construction in progress .....	<u>367,733</u>	<u>202,930</u>	<u>(216,132)</u>	<u>354,531</u>
Total capital assets not being depreciated .....	<u>\$ 611,881</u>	<u>\$ 214,634</u>	<u>\$(223,271)</u>	<u>\$ 603,244</u>
Capital assets being depreciated:				
Buildings and improvements .....	\$ 5,817,188	\$ 252,265	\$ (18,222)	\$ 6,051,231
Equipment and administrative software ...	<u>122,624</u>	<u>26,421</u>	<u>—</u>	<u>149,045</u>
Total capital assets being depreciated ..	<u>\$ 5,939,812</u>	<u>\$ 278,686</u>	<u>\$ (18,222)</u>	<u>\$ 6,200,276</u>
Total Capital Assets .....	<u>\$ 6,551,693</u>	<u>\$ 493,320</u>	<u>\$(241,493)</u>	<u>\$ 6,803,520</u>
Less accumulated depreciation for:				
Buildings and improvements .....	\$(2,129,992)	\$(159,560)	\$ 15,112	\$(2,274,440)
Equipment and administrative software ...	<u>(37,978)</u>	<u>(3,215)</u>	<u>—</u>	<u>(41,193)</u>
Total accumulated depreciation .....	<u>\$(2,167,970)</u>	<u>\$(162,775)</u>	<u>\$ 15,112</u>	<u>\$(2,315,633)</u>
Capital Assets, net of depreciation ...	<u>\$ 4,383,723</u>	<u>\$ 330,545</u>	<u>\$(226,381)</u>	<u>\$ 4,487,887</u>

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

Governmental activities:	
Instruction .....	\$103,070
Pupil support services .....	14,450
Administrative support services .....	7,168
Facility support services .....	14,619
Instructional support services .....	16,026
Food services .....	<u>7,442</u>
Total Depreciation .....	<u>\$162,775</u>

**Construction Commitments**

The CPS had active construction projects as of June 30, 2007. These projects include new construction and renovations of schools. At year-end, the CPS had approximately \$199.1 million in outstanding construction encumbrances.

## **NOTE 7. INTERFUND TRANSFERS AND BALANCES**

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### **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 . . . . .	\$ 27,884
Due to Capital Asset Program . . . . .	(32,304)
Due to Bond Redemption and Interest Program . . . . .	<u>(25,823)</u>
Total — Due from other Funds . . . . .	<u><u>\$(30,243)</u></u>
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund . . . . .	\$ 32,304
Capital Improvement Program — Due to General Operating Fund . . . . .	<u>(27,884)</u>
Total — Due to other Funds . . . . .	<u><u>\$ 4,420</u></u>
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund . . . . .	<u><u>\$ 25,823</u></u>

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

### **Transfers**

Effective June 30, 2007, CPS made operating transfers of \$1.9 million from the Public Building Commission Leases Program to the General Operating Fund to transfer interest earnings.

## **NOTE 8. LONG-TERM DEBT**

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### **General Obligation Bonds**

The CPS issued the following bonds in fiscal year 2007:

#### Unlimited Tax General Obligation Bonds (Series 2006B)

In September 2006, CPS issued \$355,805,000 in Unlimited Tax General Obligation Bonds (Series 2006B) at a 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. As a result of the issuance, CPS recorded net proceeds of \$366,540,325 in the Capital Improvement Fund.

**NOTE 8. LONG-TERM DEBT (continued)**

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

<u>Series</u>	<u>Principal Outstanding June 30, 2006</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Principal Outstanding June 30, 2007</u>	<u>Accreted Interest</u>	<u>Principal and Accreted Interest June 30, 2007</u>
2006B. ....	\$ —	\$355,805	\$ —	\$ 355,805	\$ —	\$ 355,805
2006A. ....	6,853	—	—	6,853	—	6,853
2005DE. ....	325,000	—	(5,625)	319,375	—	319,375
2005C. ....	53,750	—	(53,750)	—	—	—
2005B. ....	52,595	—	—	52,595	—	52,595
2005A. ....	193,585	—	—	193,585	—	193,585
2004H. ....	18,500	—	(18,500)	—	—	—
2004G. ....	12,500	—	—	12,500	—	12,500
2004F. ....	25,000	—	(25,000)	—	—	—
2004E. ....	41,090	—	(3,805)	37,285	—	37,285
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. ....	249,875	—	(4,350)	245,525	—	245,525
2003C. ....	4,585	—	—	4,585	—	4,585
2003B. ....	183,775	—	—	183,775	—	183,775
2003A. ....	66,230	—	(2,105)	64,125	—	64,125
2002A. ....	48,390	—	(600)	47,790	—	47,790
2001C. ....	31,995	—	(3,925)	28,070	—	28,070
2001B. ....	9,440	—	—	9,440	—	9,440
2001A. ....	6,400	—	(800)	5,600	—	5,600
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	154,810	687,364
1998B-1. ....	328,714	—	—	328,714	180,300	509,014
1998. ....	14,000	—	—	14,000	—	14,000
1997A. ....	499,995	—	—	499,995	25,393	525,388
1997. ....	80,700	—	(9,415)	71,285	—	71,285
1996. ....	55,680	—	(3,030)	52,650	—	52,650
Total Bonds. ....	<u>\$3,866,956</u>	<u>\$355,805</u>	<u>\$(130,905)</u>	<u>\$4,091,856</u>	<u>\$360,503</u>	<u>\$4,452,359</u>
Note Payable. ....	4,598	—	(992)	3,606	—	3,606
Asbestos Abatement Loans. .	6,154	—	(1,269)	4,885	—	4,885
Total Long-Term Debt. ....	<u>\$3,877,708</u>	<u>\$355,805</u>	<u>\$(133,166)</u>	<u>\$4,100,347</u>	<u>\$360,503</u>	<u>\$4,460,850</u>
Less Current Portion. ....						(41,406)
Deferred Amounts:						
On Refunding. ....						(75,617)
For Net Premium/(Discount). ....						70,370
Total Long-term Debt, net of Refunding, Current Portion and Premium/(Discount). ....						<u>\$4,414,197</u>

**NOTE 8. LONG-TERM DEBT (continued)**

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

Bonds .....	\$(42,284)
Note Payable .....	(1,090)
Asbestos Abatement Loans .....	(1,139)
Accreted Interest .....	(556)
Refunding .....	3,663
Subtotal .....	\$(41,406)
Lease obligations .....	(24,020)
Total Current Portion .....	<u>\$(65,426)</u>

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

**Defeased Debt**

Defeased bonds have been removed from the Statement of Net Assets because related assets have been placed in an irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest. In January 2007, the City of Chicago issued General Obligation bonds which refunded the CPS' series 2004F, Series 2004H and Series 2005C bonds. CPS received \$103,188,747 in bond proceeds to defease such bonds that are reflected in the table below. Defeased bonds at June 30, 2007 are as follows (\$000's):

<u>Description</u>	<u>Amount Defeased</u>	<u>Amount Outstanding</u>
Unlimited Tax General Obligation Bonds Series 2005C .....	\$ 53,750	\$ 53,750
Unlimited Tax General Obligation Bonds Series 2004H .....	18,500	18,500
Unlimited Tax General Obligation Bonds Series 2004F .....	25,000	25,000
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
Total .....	<u>\$769,065</u>	<u>\$769,065</u>

*Future debt and associated swap payments* (see Note 10). Interest rates on fixed rate bonds range from 2.5% to 6.75%, except that CPS does not pay or accrue interest on the Series 2006A Bonds, Series 2003C Bonds, the Series 2001B Bonds, the Series 2000E Bonds, the IDFA Series 1999A Bonds and the Series 1998 Bonds. These bond series were issued as "qualified zone academy bonds" within the meaning of Section 1397E of the Internal Revenue Code of 1986, as amended. CPS does not pay interest on the bonds, however, for Federal income tax purposes, "eligible taxpayers," as defined in Section 1397E of the Internal Revenue Code, who own these bonds will be entitled to a credit against taxable income. Interest rates on variable rate bonds and net swap payments assume the debt service deposit requirement rate and that auction rates as of June 30, 2007 remain the same throughout 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		Variable Rate Bonds			Total
	Principal	Interest	Principal	Interest*	Interest Rate Swaps, Net**	
2008 .....	\$ 27,869	\$ 94,055	\$ 14,415	\$ 68,203	\$ 6,695	\$ 211,237
2009 .....	33,915	93,153	15,145	67,503	6,699	216,415
2010 .....	85,427	116,362	19,490	66,742	6,703	294,724
2011 .....	85,617	116,146	21,135	65,770	6,707	295,375
2012 .....	104,046	110,385	22,105	64,744	6,711	307,991
2013-2017 .....	469,451	566,425	132,665	306,217	33,629	1,508,387
2018-2022 .....	580,556	536,154	243,630	266,057	33,666	1,660,063
2023-2027 .....	552,111	514,176	441,585	197,792	30,834	1,736,498
2028-2032 .....	488,439	688,675	496,310	90,455	17,607	1,781,486
2033-2037 .....	100,040	12,497	157,905	12,159	2,928	285,529
<b>Total .....</b>	<b><u>\$2,527,471</u></b>	<b><u>\$2,848,028</u></b>	<b><u>\$1,564,385</u></b>	<b><u>\$1,205,642</u></b>	<b><u>\$152,179</u></b>	<b><u>\$8,297,705</u></b>

\* 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. Interest on Series 2004CDE and unhedged Series 2005DE variable rate demand notes calculated at an assumed rate of 4.5% per annum (equal annual debt service deposit requirements). Interest on hedged auction rate securities and variable rate demand notes assumes current interest rates remain the same as of June 30, 2007 and was calculated as follows:

Series 2003B — 3.686%  
Series 2003D — 3.753%  
Series 2004B — 3.750%  
Series 2005DE — 3.836%  
Series 2000C — 3.710%  
Series 2004C — 3.8453%

\*\* Series 2003B computed:  $(3.782\% - 3.724\%) \times \text{Outstanding Principal}$   
Series 2003D computed:  $(3.771\% - 3.724\%) \times \text{Outstanding Principal}$   
Series 2004B computed:  $(3.5439\% - 3.724\%) \times \text{Outstanding Principal}$   
Series 2005DE computed:  $(3.6617\% - 3.724\%) \times \text{Outstanding Principal}$   
Series 2000C computed:  $(3.823\% - 3.724\%) \times \text{Outstanding Principal}$   
Series 2004C computed:  $(3.825\% - 3.724\%) \times \text{Outstanding Principal}$

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

Series	Accreted Interest June 30, 2006	Increase	Accreted Interest June 30, 2007	Total Accretable Interest	Remaining Accretable Interest
1997A .....	\$ 22,095	\$ 3,298	\$ 25,393	\$ 53,485	\$ 28,092
1998B-1 .....	155,273	25,027	180,300	816,756	636,456
1999A .....	132,685	22,125	154,810	617,287	462,477
	<u>\$310,053</u>	<u>\$50,450</u>	<u>\$360,503</u>	<u>\$1,487,528</u>	<u>\$1,127,025</u>

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

## **NOTE 9. LEASE OBLIGATIONS**

### **Capitalized Leases**

Annual rental payments are made pursuant to lease agreements with the Public Building Commission (the "PBC"). The PBC constructs, rehabilitates and equips school buildings and facilities for use by the CPS. The annual lease rentals are funded by a tax levy established when 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, 2007, are as follows (\$000's):

<u>Fiscal Year(s)</u>	<u>PBC Lease Rentals</u>	<u>Other</u>	<u>Total</u>
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 .....	51,926	424	52,350
2013-2017 .....	259,993	2,118	262,111
2018-2021 .....	134,805	1,567	136,372
Total Rentals .....	\$ 654,066	\$ 5,805	\$ 659,871
Less — Interest and other costs .....	(218,531)	(3,005)	(221,536)
Principal amount of rental due .....	<u>\$ 435,535</u>	<u>\$ 2,800</u>	<u>\$ 438,335</u>

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

	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>
PBC Leases .....	\$458,030	\$—	\$(22,495)	\$435,535
Other Capitalized Leases .....	2,975	\$—	(175)	2,800
	<u>\$461,005</u>	<u>—</u>	<u>\$(22,670)</u>	<u>\$438,335</u>
Less: Current Portion PBC Leases .....				(23,845)
Current Portion Other Capitalized Leases .....				(175)
Total Long-Term Leases Outstanding .....				<u>\$414,315</u>

### **Operating Leases**

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

**NOTE 9. LEASE OBLIGATIONS (continued)**

Total expenditures for operating leases for the fiscal year ending June 30, 2007 were \$14.3 million. Following is a summary of operating lease commitments as of June 30, 2007 (000's):

<u>Fiscal Year(s)</u>	<u>Non-Real property leases</u>	<u>Real Property leases</u>	<u>Total</u>
2008.....	\$ 8,172	\$ 9,148	\$17,320
2009.....	6,046	8,286	14,332
2010.....	3,593	7,314	10,907
2011.....	1,034	7,383	8,417
2012.....	23	6,624	6,647
2013-2017 .....	—	20,404	20,404
2018-2021 .....	—	1,672	1,672
Total Operating Lease Commitments .....	<u>\$18,868</u>	<u>\$60,831</u>	<u>\$79,699</u>

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

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

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

*Fair value.* As of June 30, 2007, 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, 2007 (see table below).

*Credit risk.* As of June 30, 2007, 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, 2007**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Goldman Sachs .....	\$110,265,000	A1	A+; stable	\$2,339,937
Bank of America .....	73,510,000	Aa1	AA-; stable	1,560,713
Total .....	<u>\$183,775,000</u>			<u>\$3,900,650</u>

## **NOTE 10. DERIVATIVE INSTRUMENTS (continued)**

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***Basis risk.*** The swaps exposed CPS to basis risk when the rate paid on the auction rate securities was higher than the SIFMA rate received through March 1, 2007. The swaps also expose CPS to basis risk should the relationship between LIBOR and SIFMA 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, 2007, the weighted average auction rate was 3.686% and the 70% of LIBOR was 3.724%. 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**

#### *Floating to Fixed Rate Swaps*

***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 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 70% of the LIBOR through March 1, 2034.

***Fair value.*** As of June 30, 2007, 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, 2007 (see table below).

***Credit risk.*** As of June 30, 2007, CPS was exposed to credit risk because the swaps had a positive fair value. However, should interest rates change and the fair value of the swaps becomes negative, CPS would not be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A—" / "A3", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.



**NOTE 10. DERIVATIVE INSTRUMENTS (continued)****Swap Counterparty Data as of June 30, 2007**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Lehman Brothers . . . . .	\$ 95,350,000	A1	A+; stable	\$2,189,225
Goldman Sachs . . . . .	90,000,000	A1	A+; stable	2,081,207
Total . . . . .	<u>\$185,350,000</u>			<u>\$4,270,432</u>

*Basis risk.* The swaps expose CPS to basis risk should the rate paid on the auction rate securities be higher than the 70% of LIBOR rate received from the swap counterparties. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.771% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2007, the weighted average auction rate was 3.753% and 70% of LIBOR was 3.724%. 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' 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.

*Libor Exchange Swap*

*Swap Objective.* In September 2006, CPS entered into an interest rate swap associated with the issuance of the Series 2003D bonds. The intention of entering into the swap was to effectively change the 70% LIBOR (1 month) CPS receives to 65.02% of LIBOR (5 year).

*Swap Terms.* The bonds and the related swap agreements mature on March 1, 2034, and the total notional amount of the swap 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 the counterparty a variable payment computed at 70% of the LIBOR (1 Month) and receives a variable payment 65.02% of LIBOR (5 Year) through March 1, 2034.

*Fair Value.* As of June 30, 2007, the swap has a negative fair value as a result of long-term interest rates rising since the execution of the swap. Because the coupons on CPS' variable rate bonds adjust to changing interest rates, the bonds do have a corresponding fair value increase. The fair value was determined by market prices quoted by each counterparty as of June 30, 2007 (see table below).

*Credit risk.* As of June 30, 2007, CPS was not exposed to credit risk because the swap 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-" / "A3", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

**NOTE 10. DERIVATIVE INSTRUMENTS (continued)****Swap Counterparty Data as of June 30, 2007**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Bear Stearns .....	\$185,350,000	AAA	AAA; stable	\$(774,283)

*Basis risk.* The swap exposes CPS to basis risk if the 70% of LIBOR rate paid is higher than the 65.02% of LIBOR (5 year) rate received from the swap counterparty, therefore the expected cost savings may not be realized. As of June 30, 2007, the weighted average of 70% of LIBOR was 3.724% and the weighted average rate of 65.02% of LIBOR was 3.5711%.

*Termination risk.* CPS or the counterparties may terminate the swap if the other party fails to perform under the terms of the contract. The swap 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 swap may also be terminated by the counterparty if CPS' 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. 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 (net of offsetting transactions) 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 LIBOR through March 1, 2032. Under the third swap agreement, which allows CPS to better hedge against the associated variable rate debt, CPS receives either a lower percentage of LIBOR in a high interest rate environment, or a higher percentage of LIBOR in a low interest rate environment, based on the following scale:

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

*Fair value.* As of June 30, 2007, the swaps have a net positive fair value as a result of long-term interest rates rising since the execution of the swap. Because the coupons on CPS' 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, 2007 (see table below).

*Credit risk.* As of June 30, 2007, 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

**NOTE 10. DERIVATIVE INSTRUMENTS (continued)**

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, 2007**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Goldman Sachs .....	\$178,845,000	A1	A+; stable	\$ 8,770,929
Bear Stearns.....	119,230,000	Aaa	AAA; stable	5,865,364
Subtotal .....	298,075,000			14,636,293
Bear Stearns.....	298,075,000	Aaa	AAA; stable	(4,827,512)
Total .....	<u>\$596,150,000</u>			<u>\$ 9,808,781</u>

*Basis risk.* The swaps expose CPS to basis risk should the rate paid on the auction rate securities be higher than the rates received from the swap counterparties. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.5439% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2007, the weighted average auction rate was 3.750% and the 70% of LIBOR rate was 3.724%. 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.

In November 2006, CPS also 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). CPS received an upfront payment of \$24,925,000 to be used for costs of issuance and for debt service requirements in fiscal year 2007.

*Swaption terms.* Upon exercise of the options, CPS will issue variable rate bonds to currently refund \$262,785,000 of the Series 1997A bonds, and the interest rate swaps 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 from Bank of America and a variable payment at 70% of LIBOR plus 0.28%.

**NOTE 10. DERIVATIVE INSTRUMENTS (continued)**

*Fair value.* Because CPS received an upfront payment and the fixed rate is higher than current market rates, the swaptions have a negative fair value as determined by market prices quoted by the counterparty as of June 30, 2007 (see table below).

*Credit risk.* As of June 30, 2007, CPS was not exposed to credit risk because the swaptions had a negative fair value. However, should interest rates change and the fair value of the swaptions become 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 swaptions reach certain threshold amounts, the fair value of the swaptions will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

**Swaption Counterparty Data as of June 30, 2007**

<u>Counterparty</u>	<u>Swaption Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swaption Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Goldman Sachs . . . . .	\$100,000,000	Aa1	AA-; stable	\$(11,565,308)
Royal Bank of Canada . . . . .	162,785,000	Aaa	AA-	(17,621,985)
Total . . . . .	<u>\$262,785,000</u>			<u>\$(29,187,293)</u>

*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 swaption has a negative fair value, CPS would be liable to the counterparty for payment equal to the swaption's fair value. If the swap is terminated after the option is exercised, the Series 2007A 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 SIFMA 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 SIFMA rate and receives a variable payment computed at 80.764% of LIBOR.

**NOTE 10. DERIVATIVE INSTRUMENTS (continued)**

*Fair value.* As of June 30, 2007, 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, 2007 (see table below).

*Credit risk.* As of June 30, 2007, 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, 2007**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Loop Financial . . . . .	\$116,151,000	A2	A+; stable	\$3,797,968
Merrill Lynch . . . . .	77,434,000	Aa3	A+; stable	3,204,763
Total . . . . .	<u>\$193,585,000</u>			<u>\$7,002,731</u>

*Basis risk.* The swaps expose CPS to basis risk should the relationship between LIBOR and SIFMA 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, 2007, the SIFMA rate was 3.7033%. As of June 30, 2007, the rate received by one counterparty was 4.248% (70% of LIBOR + 52.4 basis points) and was 4.2966% from the other (80.764% of LIBOR), effectively lowering the stated coupon on the bonds by a weighted average of 56.41 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, 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.

**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 LIBOR.

*Fair value.* As of June 30, 2007, 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

**NOTE 10. DERIVATIVE INSTRUMENTS (continued)**

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, 2007 (see table below).

*Credit risk.* As of June 30, 2007, 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, 2007**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Loop Financial . . . . .	\$287,055,000	A2	A; stable	\$9,639,944

*Basis risk.* The swaps expose CPS to basis risk should the rate paid on the variable rate debt be higher than the 70% of the 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, 2007, the weighted average variable rate was 3.836% and 70% of LIBOR was 3.724%. 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 2005DE 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 2000C and Series 2004C**

*Swap Objective.* In February 2007, CPS entered into interest rate swaps associated with Series 2000C and Series 2004C bonds with Royal Bank of Canada. The intention of entering into the swaps was to effectively change the variable interest rate on the bonds to a fixed interest rate of 3.823% for Series 2000C and 3.825% for Series 2004C.

*Series 2000C Swap terms.* The bonds and the related swap agreement mature on March 1, 2032, and the total notional amount of the swaps equals the \$61,100,000. Starting in fiscal year 2024, 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 3.823% and receives a variable payment computed at 70% of the LIBOR.

*Series 2004C Swap terms.* The bonds and the related swap agreement mature on March 1, 2035, and the total notional amount of the swaps equals the \$124,320,000. Starting in fiscal year 2024, 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 3.825% and receives a variable payment computed at 70% of LIBOR.

**NOTE 10. DERIVATIVE INSTRUMENTS (continued)**

*Fair value.* As of June 30, 2007, the swap has 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, 2007 (see table below). Because the coupons on CPS' variable rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase.

*Credit risk.* As of June 30, 2007, 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 become 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, 2007**

<u>Counterparty</u>	<u>Swap Notional Amount</u>	<u>Credit Rating; Outlook</u>		<u>Swap Fair Value</u>
		<u>Moody's</u>	<u>S&amp;P</u>	
Royal Bank of Canada . . . . .	\$ 61,100,000	Aaa	AA-	\$1,195,056
Royal Bank of Canada . . . . .	<u>124,320,000</u>	Aaa	AA-	<u>\$2,566,063</u>
Total . . . . .	<u>\$185,420,000</u>			<u>\$3,761,119</u>

*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 3.823% for the 2000C bonds and 3.825% synthetic rate for 2004C bonds and therefore the expected cost savings may not be realized. As of June 30, 2007, the weighted average variable rate was 3.8453% for Series 2004C and 3.710% for Series 2000C and 70% of LIBOR was 3.724%.

*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' 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 2000C and 2004C 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, 2006	Additions	Payments	Balance June 30, 2007
Accrued Sick Pay Benefits . . . . .	\$245,812	\$26,393	\$(57,322)	\$214,883
Accrued Vacation Pay Benefits . . . . .	44,426	4,738	(9,805)	39,359
Accrued Workers' Compensation Claims . . . . .	69,506	24,960	(19,052)	75,414
Accrued General and Automobile Claims . . . . .	4,339	6,005	(160)	10,184
Tort Liabilities and Other Claims . . . . .	2,900	2,750	(1,500)	4,150
Total . . . . .	<u>\$366,983</u>	<u>\$64,846</u>	<u>\$(87,839)</u>	<u>\$343,990</u>
Less: Current Portion of Accrued Sick Pay Benefits . . . . .				(52,451)
Less: Current Portion of Accrued Vacation Pay Benefits . . . . .				(7,333)
Less: Current Portion of Tort Liabilities and Other Claims . . . . .				(750)
Total Other Long-term Liabilities . . . . .				<u>\$283,456</u>

**Sick Pay Benefits**

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

**Vacation Pay Benefits**

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

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

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

The CPS maintains commercial excess property insurance for "all risks" of physical loss or damage with limits of \$200,000,000 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 2007, 2006 and 2005 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 \$75,000,000 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.

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.



**NOTE 11. OTHER LONG-TERM LIABILITIES (continued)**

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 \$55.6 million has been recorded for health insurance costs as a part of accrued payroll in the General Operating Fund, which includes \$26.3 million for estimated medical claims incurred but not reported as of June 30, 2007. Following is the activity related to medical claims for which the CPS is self-insured (\$000's):

<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2007</u>
<u>\$45,025</u>	<u>\$255,618</u>	<u>\$(251,631)</u>	<u>\$49,012</u>	<u>\$263,695</u>	<u>\$(257,066)</u>	<u>\$55,641</u>

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

Pension benefits for certified teachers and administrators are provided under a defined benefit cost-sharing multiple employer plan administered by the Public School Teachers' Pension and Retirement Fund of Chicago (the "Pension Fund") in which the CPS is the sole employer. 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, 2006, the most recent report, there were 34,682 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 2007, as in previous fiscal years, the CPS paid a portion (7% — \$115.3 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 .....	\$ 75,242
A contribution to increase funded ratio to 90% .....	80,340
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs .....	1,106
A contribution to Early Retirement Option plan .....	<u>10,521</u>
Total contributions .....	<u>\$167,209</u>

**NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

For the fiscal year ended June 30, 2007, employee contributions are \$148.2 million which is 9% of covered payroll. Employer contributions for the year are \$167.2 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 \$167.2 million and amounts incurred by the CPS for a portion of the required employees' pension contribution of \$115.3 million, which total \$282.5 million. For functional reporting purposes, all teachers' pension expenditures, except that portion funded by the Federal grants, are reflected in the same functional classifications as the teachers' salaries.

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

The CPS' annual pension costs for fiscal years 2007, 2006 and 2005 are as follows (\$000's):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual required contribution (ARC) . . . . .	\$ 370,210	\$ 328,366	\$ 258,883
Interest on Net Pension Obligation (NPO) . . . . .	121,042	100,492	83,200
Adjustment to annual required contribution . . . . .	<u>(85,639)</u>	<u>(61,849)</u>	<u>(51,206)</u>
Annual Pension Cost (APC) for the fiscal year ended			
June 30, 2007 . . . . .	\$ 405,613	\$ 367,009	\$ 290,877
Less: Contributions made . . . . .	<u>(167,209)</u>	<u>(110,132)</u>	<u>(74,729)</u>
Increase in NPO . . . . .	\$ 238,404	\$ 256,877	\$ 216,148
Add NPO, beginning of year . . . . .	<u>1,513,023</u>	<u>1,256,146</u>	<u>1,039,998</u>
NPO, end of year . . . . .	<u>\$1,751,427</u>	<u>\$1,513,023</u>	<u>\$1,256,146</u>
Actuarial valuation date . . . . .	June 30, 2006		
Actual cost method . . . . .	Projected Unit Credit		
Amortization method . . . . .	Level percent, open		
Remaining amortization period . . . . .	30 years		
Asset valuation method . . . . .	4 year smoothed market		
Actuarial assumptions:			
Investment rate of return . . . . .	8%		
Projected salary increases . . . . .	Average of 4% per year		
Inflation . . . . .	3%		

At June 30, 2006, 2005 and 2004 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows (\$000's):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Actuarial value of assets . . . . .	\$ 10,947,998	\$ 10,506,471	\$ 10,392,193
Less: Actuarial Accrued Liability (AAL) . . . . .	<u>(14,035,627)</u>	<u>(13,295,876)</u>	<u>(12,105,681)</u>
AAL unfunded (liability)/surplus . . . . .	<u>\$ (3,087,629)</u>	<u>\$ (2,789,405)</u>	<u>\$ (1,713,488)</u>
Funded ratio . . . . .	78.0%	79.0%	85.8%
Covered payroll . . . . .	\$ 1,944,358	\$ 1,968,612	\$ 1,767,631
Unfunded AAL as a percentage of covered payroll . . .	158.8%	141.7%	96.9%

**NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual pension cost . . . . .	\$ 405,613	\$ 367,009	\$ 290,877
Percentage of annual pension cost contributed . . . . .	41.2%	30.0%	25.7%
Net Pension Obligation . . . . .	\$1,751,427	\$1,513,023	\$1,256,146

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 \$80.3 million in fiscal year 2007 to increase the funded ratio to 90% and will make an additional General Operating Fund appropriation of \$131.5 million for the fiscal year ended June 30, 2008.

During fiscal year 2007, approximately 231 teachers participated in CPS' early retirement incentive program. The accrued pension cost of \$6.3 million was recorded in the fund financial statements.

**Pension — 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 benefit 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 2007, as in previous fiscal years, the CPS agreed to pay a portion (7% — \$31.5 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 \$83.3 million, \$31.5 million of this amount represents the required employees' contribution paid by the CPS on behalf of its employees, and \$45.8 million is contributed by the City of Chicago through its specific tax levies for pension plans and the remaining \$6 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 \$83.3 million.

As of December 31, 2006, the date of the latest available report, the Annuity Fund had net assets of approximately \$6.84 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately \$3.18 billion. The CPS employs approximately 15,000 of the 33,429 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

**NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)**

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

The Pension Fund administers a health insurance program that includes two external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Pension Fund, provided the Pension Fund is the recipient's final pension system prior to retirement. The purpose of this program is to help defray the retired member's premium cost for health insurance. The member is responsible for paying the cost of the insurance and may purchase insurance from the Pension Fund's providers or other outside providers. Each year, the Board of Trustees of the Pension Fund establishes a rebate percentage that is used to defray a portion of the cost of the insurance. The rebate percentage was 70% of the individual member's cost for fiscal year 2006. 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. In accordance with Illinois Compiled Statutes (ILCS) Article 40 Chapter 5 Article 17 Section 142.1, the total health insurance benefits provided in any one year may not exceed \$65 million plus any previous year amounts authorized but not yet expended. The statutory threshold, however, does not fall under the definition of a funding cap as set forth in GASBS 45. The Pension Fund has total discretion over the program, and no employee or employer contributions are made for the subsidy. As of June 30, 2006, the most recent available data, there were 13,330 active participants in the Chicago Teachers' Pension Fund Retiree Health Insurance Program.

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 costs for fiscal year 2007 and 2006 are as follows (\$000's):

	<u>2007</u>	<u>2006</u>
Total actuarial valuation as of June 30, 2006 and June 30, 2005 .....	\$(2,373,774)	\$(2,825,543)
Total OPEB assets of the Teacher Pension Fund .....	41,058	89,763
Unfunded actuarial liability .....	<u>\$(2,332,716)</u>	<u>\$(2,735,780)</u>
Annual amount to amortize unfunded liability over 30 years as a level percent of payroll .....	\$ 91,029	\$ 106,758
Normal cost .....	118,417	106,558
Annual required contribution .....	\$ 209,446	\$ 213,316
Interest on net OPEB obligation .....	10,666	N/a
Adjustment to annual required contribution .....	(8,324)	N/a
Annual OPEB cost for the fiscal year ended June 30, 2007 . . .	\$ 211,788	\$ 213,316
Less: Contributions made .....	—	—
Increase in OPEB .....	\$ 211,788	\$ 213,316
Add OPEB, beginning of year .....	\$ 213,316	—
OPEB, end of year .....	<u>\$ 425,104</u>	<u>\$ 213,316</u>
Actuarial valuation date .....	June 30, 2006	
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 .....	5%	
Inflation .....	3%	

**Other Personnel**

Actuarial studies on other personnel determined that no OPEB liability exists for those employees as of June 30, 2007.

**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, 2007, net of bonds advance refunded or defeased is \$127,795,000. 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, 2007 is shown below:

<u>Fiscal Year(s)</u>	<u>Maturities</u>		
	<u>Principal and Sinking Fund Installments</u>	<u>Interest</u>	<u>Total</u>
2008 .....	\$ 61,150	\$ 6,943	\$ 68,093
2009 .....	66,645	3,605	70,250
Total .....	<u>\$127,795</u>	<u>\$10,548</u>	<u>\$138,343</u>

**NOTE 13. THE CHICAGO SCHOOL FINANCE AUTHORITY (continued)**

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

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**

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*a. Fund Balance Reservation*

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

<u>Purpose</u>	<u>Reserved Amount</u>
Workers' Compensation/Tort Immunity .....	\$ 48,880
Supplementary General State Aid .....	33,790
Public Building Commission Operations and Maintenance .....	46,927
Total .....	<u>\$129,597</u>

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2007 Supplementary General State Aid allocation.

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 2008 budget, CPS appropriated in its General Operating Fund \$36.0 million of fund balances from amounts reserved for specific purposes and \$73.0 million of general fund balance.

In its fiscal year 2007 budget, CPS designated \$218.4 million to provide working capital. In its fiscal year 2008 budget, CPS has designated \$233.2 million to provide working capital.

During fiscal year 2007, the Board reserved \$264.9 million for Debt Service of which \$218.6 million was allocated to the Bond Redemption and Interest Program and the remaining \$46.3 million was allocated to the Public Building Commission Leases Program.

*b. Net Assets Restrictions*

The government-wide statement of net assets reports \$545.1 million of restricted net assets, of which \$413.7 is restricted for Debt service and \$131.4 million is restricted for Specific purposes.

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

<u>Purpose</u>	<u>Restricted Amount</u>
Restricted donations .....	\$ 1,765
Restricted by enabling legislation .....	129,597
Total .....	<u>\$131,362</u>

**NOTE 15. LITIGATION AND CONTINGENCIES**

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*a. State and Federal Aid Receipts*

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management and legal counsel, any potential adjustments to the Federal or State aid recorded by CPS through

**NOTE 15. LITIGATION AND CONTINGENCIES (continued)**

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June 30, 2007, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2007.

***b. 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.

***c. Wrongful Death Claim***

Deena Samuels v Board of Education of the City of Chicago, et. is both a survivor action and a wrongful death claim lawsuit on behalf of Aniya Bowers. On March 17, 2005 Deena Samuels, a Board employee, fell on a wet floor in the cafeteria of Oscar DePriest Elementary School. She was pregnant at the time. She gave birth to Aniya Bowers, who died on April 27, 2005. Total Facility Maintenance (TFM), a Board cleaning services vendor, is a co-defendant. It was responsible for cleaning the area of the cafeteria where people sat and ate. The Board's custodians were responsible for cleaning the area near where the food was served. Samuels fell in the latter area. Oral discovery has not yet started in this case. If this is a "premises" case, a negligence standard will apply. If the cause of the fall was some action or inaction by a Board employee, a willful and wanton standard may apply. The major fact issue is whether Samuel's fall is a proximate cause of the premature birth and/or the death of her daughter. Significant discovery still has to be taken on these issues before a more informed opinion can be given. However, because this case involves the death of an infant, the potential exposure can exceed \$1,000,000. A finding of liability on the part of CPS cannot be predicted as either probable or remote at this juncture.

***d. 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, 2007, 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, 2007.

**NOTE 16. SUBSEQUENT EVENTS**

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**Bond Issuance****Unlimited Tax General Obligation Refunding Bonds (Series 2007A)**

In September 2007, Chicago Public Schools issued \$262,785,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007A) as Auction Rate Securities (variable rate). The proceeds from these bonds were used to refund \$262,785,000 of Series 1997A bonds. Costs of issuance of the bonds were paid from an upfront payment associated with two swaptions entered into with Bank of America in 2005 and Royal Bank of Canada in 2006. The debt service will be paid from an Intergovernmental Agreement with the City of Chicago.

**Unlimited Tax General Obligation Refunding Bonds (Series 2007BC)**

In September 2007, Chicago Public Schools issued \$197,765,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007B) and \$6,870,000 in Unlimited Tax General Tax Refunding Bonds (Series 2007C) at a premium of \$10,302,848 and \$5,907 respectively. The proceeds from these bonds

**NOTE 16. SUBSEQUENT EVENTS (continued)**

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were used to refund \$199,225,000 of Series 1997A bonds and \$6,700,000 of Series 1997 Bonds, and pay costs of issuance of the bonds. The debt service will be paid from an Intergovernmental Agreement with the City of Chicago.

Unlimited Tax General Obligation Bonds (Series 2007D (E))

In December 2007, Chicago Public Schools issued \$238,720,000 in Unlimited Tax General Tax Obligation Bonds (Series 2007D) at a premium of \$13,835,224. The proceeds from these bonds are being used as part of CPS' Capital Improvement Program, and to pay costs of issuance of the bonds. The debt service will be paid from General State Aid Revenues.



## APPENDIX B

### SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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

#### DEFINITIONS 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 State Aid Revenues with the Series 2008C Bonds as authorized by 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.

*“Bank of America”* means Bank of America, N.A., as one of the counterparties to the Board under the Series 2003B Swap Agreements.

*“Bear Stearns”* means Bear Stearns Financial Products, Inc., as one of the counterparties to the Board under the Series 2004B Interest Rate Swap Agreements and the counterparty to the Board under the Series 2004B Basis Swap Agreement.

*“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 Municipal Bond Insurance Policy Number 210349 issued by the Bond Insurer insuring the payment of the principal of and interest on the Insured Bonds as provided therein.

*“Bond Insurer”* means Financial Security Assurance Inc.

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

*“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 designated 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 in the Indenture.

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

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

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

*“Deposit Date”* means February 15 of each year or such earlier date as may be necessary to permit the Board to lawfully make the abatement of taxes pursuant to the Indenture.

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

*“DTC”* means The Depository Trust Company, New York, New York, as securities depository for the Series 2008C Bonds.

*“DTC Participant”* shall mean 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.

*“Event of Default”* means any event so designated and specified in the Indenture.

*“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 *“Supplier”*) pursuant to which the Supplier 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 Supplier 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.

*“Goldman”* means Goldman Sachs Capital Markets, L.P., as one of the counterparties to the Board under the Series 2003B Swap Agreements and the Series 2004B Swap Agreements.

*“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 May 1, 2008, by and between the Board and the Trustee, as from time to time amended and supplemented.

*“Insured Bonds”* means all Series 2008C Bonds maturing on December 1, 2027 and December 1, 2032 and, in the case of the Series 2008C Bonds maturing on December 1, 2032,

includes the Series 2008C Bonds subject to mandatory sinking fund redemption on December 1 of the years 2030 and 2031.

*“Interest Deposit Sub-Account”* means the sub-account of that name in the Payment Sub-Account of the Pledged State Aid Revenues Account established in the Indenture.

*“Interest Payment Date”* means June 1 and December 1 of each year, commencing June 1, 2008.

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

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

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

- (i) Government Obligations;
- (ii) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
  - Export-Import Bank
  - Farm Credit System Financial Assistance Corporation
  - Farmers Home Administration
  - General Services Administration
  - U.S. Maritime Administration
  - Small Business Administration
  - Government National Mortgage Association (GNMA)
  - U.S. Department of Housing & Urban Development (PHA's)
  - Federal Housing Administration;
- (iii) Senior debt obligations which at the time of purchase are rated “AAA” by Standard & Poor’s Ratings Services (“S&P”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) issued by 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;

(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 Series 2008C Bonds described in the Indenture.

“*Outstanding*” means, as of any date, all Series 2008C Bonds theretofore or thereupon being authenticated and delivered under the Indenture except:

(i) Any Series 2008C Bonds canceled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Series 2008C 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 Series 2008C Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture; and

(iv) Bonds deemed to have been paid as provided in the Indenture.

“*Owner*” means any person who shall be the registered owner of any Series 2008C 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 Series 2008C 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 State Aid Revenues Account established in the Indenture.

“*Person*” means and includes an association, unincorporated organization, a corporation,

a partnership, a joint venture, a business trust, or a government or an agency or a political subdivision thereof, or any other public or private entity, or a natural person.

*“Pledged State Aid Revenues”* means that amount of the State Aid Revenues, not in excess of \$225,000,000 available pursuant to the 2008 Authorization in any year, as shall provide for the payment of the Series 2008C Bonds, any Swap Payments and any Additional Bonds and the provision of not less than an additional .10 times debt service on the Series 2008C Bonds in such year.

*“Pledged State Aid Revenues Account”* means the account of that name in the Debt Service Fund established in the Indenture.

*“Pledged State Aid Revenues Account Requirement”* means, determined on each Deposit Date, an amount which will cause the amount on deposit in the Pledged State Aid Revenues Sub-Account to be equal to the sum of (i) the interest payable on the Series 2008C Bonds on the next succeeding June 1 and December 1; provided, however, that for any period of time during the then-current Bond Year, for which a Swap Agreement (as defined below) is in place with respect to any Series 2008C Bonds, such amount shall be increased or decreased, as appropriate, by calculating interest with respect to such Bonds at an interest rate equal to the interest rate payable with respect to the Series 2008C Bonds pursuant to such Swap Agreement determined as set forth in a written notice delivered by the Board to the Trustee under the Indenture regarding such Swap Agreement, and (ii) the principal amount of such Bonds scheduled to become due at maturity or by mandatory sinking fund redemption on the next succeeding December 1.

*“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 Series 2008C Bonds.

*“Pledged Taxes Account”* means the account of that name in the Debt Service Fund established in the Indenture.

*“Pre-refunded Municipal Obligations”* means any Series 2008C 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 Series 2008C Bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

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

*“Rating Services”* means the nationally recognized rating services, or any of them, that shall have assigned ratings to any Series 2008C 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 Series 2008C Bonds, the 15<sup>th</sup> day (whether or not a Business Day) of the calendar month next preceding such interest payment date.

*“Redemption Price”* means, with respect to any Series 2008C Bond, the principal amount thereof plus the applicable premium, if any, payable upon the date fixed for redemption.

*“Refunded Bonds”* means all outstanding Series 2003B Bonds and Series 2004B Bonds.

*“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 Series 2008C Bonds, and its successor or successors.

*“Repurchase Agreements”* means 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.

*“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 2003B Swap Counterparties”* means, collectively, Goldman and Bank of America in their roles as counterparties to the Board under the Series 2003B Swap Agreements.

*“Series 2003B Bonds”* means, collectively, the outstanding \$45,100,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-1, \$43,350,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-2 and \$95,325,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-3, of the Board.

*“Series 2003B Refunding Escrow Agent”* means The Bank of New York Trust Company, N.A., Chicago, Illinois and any successor or successors appointed under the Series 2003B Refunding Escrow Agreement.

*“Series 2003B Refunding Escrow Agreement”* means the Series 2003B Refunding Escrow Agreement dated as of May 1, 2008, between the Board and the Series 2003B Refunding Escrow Agent, as from time to time amended.

*“Series 2003B Swap Agreements”* means, collectively, (i) the ISDA Master Agreement, the Schedule and the Confirmation thereto and the Credit Support Annex to the Schedule, between the Board and Goldman, each dated as of February 4, 2003 and (ii) the ISDA Master Agreement, the Schedule thereto and the Credit Support Annex to such Schedule, each dated as of February 4, 2003, and the related Confirmation as revised and dated February 10, 2003, between the Board and Bank of America, all effective on the date of issuance of the Series 2003B Bonds.

*“Series 2004B Basis Swap Agreement”* means, collectively, the ISDA Master Agreement, the Schedule and the Credit Support Annex to the Schedule, between the Board and Bear Stearns, each dated as of March 29, 2004 and the Confirmation related thereto dated March 31, 2004, entered into for the purpose of mitigating the basis risk to the Board associated with the LIBOR-based Series 2004B Interest Rate Swap Agreements.

*“Series 2004B Bonds”* means, collectively, the outstanding \$75,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-1, \$75,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-2, \$75,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-3 and \$73,075,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-4, of the Board.

*“Series 2004B Interest Rate Swap Agreements”* means, collectively, (i) the ISDA Master Agreement, the Schedule and the Credit Support Annex to the Schedule, between the Board and Bear Stearns, each dated as of March 29, 2004 and the Confirmation related thereto dated March 31, 2004 and (ii) the ISDA Master Agreement, the Schedule and the Credit Support Annex to the Schedule, each dated as of February 4, 2003, as amended as of December 3, 2003 and the Confirmation related thereto dated March 31, 2004, between the Board and Goldman, all effective on the date of issuance of the Series 2004B Bonds.

*“Series 2004B Refunding Escrow Agent”* means Amalgamated Bank of Chicago, Chicago, Illinois and any successor or successors appointed under the Series 2004B Refunding Escrow Agreement.

*“Series 2004B Refunding Escrow Agreement”* means the Series 2004B Refunding Escrow Agreement dated as of May 1, 2008, between the Board and the Series 2004B Refunding Escrow Agent, as from time to time amended.

*“Series 2004B Swap Agreements”* means, collectively, the Series 2004B Interest Rate Swap Agreements and the Series 2004B Basis Swap Agreement.

*“Series 2004B Swap Counterparties”* means, collectively, Bear Stearns and Goldman, in their respective roles as counterparties to the Board under the Series 2004B Swap Agreements.



*“Series 2008C Bonds”* means the \$464,655,000 aggregate principal amount of Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C, of the Board, being issued under the Indenture and any Series 2008C Bonds issued hereunder in substitution or replacement therefor.

*“SLGs”* means United States Treasury Certificates of Indebtedness, Notes and Bonds - State and Local Government Series.

*“State”* means the State of Illinois.

*“State Aid Revenues”* means those State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund, or act as may be enacted in the future.

*“Supplemental Indenture”* means any Supplemental Indenture between the Board and the Trustee authorized pursuant to the Indenture.

*“Swap Agreement”* means any agreement (not including the Series 2003B Swap Agreements or the Series 2004B Swap Agreements) 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 Series 2008C Bonds for the payment of interest.

*“Swap Payment”* means, with respect to each Swap Agreement, each periodic scheduled payment owing to the Swap Provider made with respect to the notional amount identified in such Swap Agreement. For purposes of the Indenture, *“Swap Payment”* excludes any non-scheduled payments, including but not limited to termination payments, indemnification payments, tax gross-up payments, expenses and default interest payments.

*“Swap Payment Account”* means the Account of that name in the Debt Service Fund established in the Indenture.

*“Swap Payment Date”* has the meaning set forth in Section 5.4(D) of the Indenture.

*“Swap Provider”* means any counterparty to a Swap Agreement.

*“Tax Agreement”* means the Tax Regulatory Agreement, dated the date of issuance of the Series 2008C Bonds, executed by the Board and the Trustee.

*“Trustee”* means The Bank of New York Trust Company, N.A., Chicago, Illinois, and any successor or successors appointed under the Indenture as hereinafter provided. The “designated corporate trust office” of the Trustee means 2 North LaSalle Street, Suite 1020, Chicago, Illinois 60602, or such other address as is provided by the Trustee in writing to the Board and the other Fiduciaries (if any).

*“Trust Estate”* means the Pledged State Aid Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Indenture.

*“2008 Authorization”* means the authorization adopted by the Board pursuant to Resolution No. 08-0227-RS13 on February 27, 2008, authorizing the issuance of alternate bonds pursuant to the Act in an amount not to exceed \$1,900,000,000.

*“2008 Bond Resolution”* means Resolution No. 08-0326-RS1, adopted by the Board on March 26, 2008, authorizing the issuance of the Series 2008C Bonds.

*“Year”* or *“year”* means a calendar year.

#### **PLEDGE OF TRUST ESTATE**

In order to secure the payment of the principal of, premium, if any, and interest on all Series 2008C Bonds issued under the Indenture, and the performance and observance of each and every covenant and condition contained in the Indenture and in the Series 2008C Bonds, the Board in the Indenture pledges and grants a lien upon the following Trust Estate to the Trustee, to the extent provided in the Indenture:

- (a) The Pledged State Aid Revenues and the Pledged Taxes;
- (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.

#### **THE BONDS ARE GENERAL OBLIGATIONS**

The Series 2008C Bonds are at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged State Aid Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Series 2008C 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 Series 2008C 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 Series 2008C Bonds have been paid from the Pledged State Aid Revenues for a complete fiscal year of the Board.

#### **ADDITIONAL BONDS PAYABLE FROM PLEDGED STATE AID REVENUES**

The Board will not issue any bonds or other evidences of indebtedness, other than the Series 2008C Bonds, which are secured by a pledge of or lien on the Pledged State Aid Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture except in accordance with the provisions of the Indenture. The Indenture authorizes the issuance of Additional Bonds from time to time payable from all or any portion of the Pledged State Aid Revenues or any other source of payment which may be

pledged under the Act, and any such Additional Bonds shall share ratably and equally in the Pledged State Aid Revenues with the Series 2008C Bonds; *provided, however*, that no Additional Bonds may 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 Pledged State Aid Revenues subordinate to the Series 2008C Bonds. Such subordinate obligations will be paid from Pledged State Aid Revenues available to the Board in each year in excess of those required to be deposited in the Pledged State Aid Revenues Account during such year.

#### **PROVISIONS REGARDING PAYMENT OF BONDS**

The principal and Redemption Price of the Series 2008C Bonds is 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 Series 2008C Bonds pursuant to the Indenture. Interest on the Series 2008C 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 Series 2008C 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 Series 2008C Bonds are payable, with respect to interest, principal and redemption premium (if any) in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

#### **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 Series 2008C Bond will be transferable only upon the registration books of the Board, which will be kept for such purpose by the Registrar, by the Owner in person or by its attorney duly authorized in writing, upon surrender thereof with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney. Upon the transfer of any such Bond, the Board will issue in the name of the transferee a new Series 2008C Bond or Bonds in Authorized Denominations of the same Series, maturity and aggregate principal amount. Upon surrender at the principal office of the Registrar with a written instrument of transfer satisfactory to the Registrar, duly executed by the Owner or its duly authorized attorney, any Bond may, at the option of the Owner and upon payment of any charges sufficient to reimburse the Trustee for any tax, fee or other governmental charge required to be paid, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series, maturity and tenor of any other Authorized Denominations. The Registrar and the Trustee will not be required to make any registration, transfer or exchange of any Series 2008C Bond after such Bond has been called for redemption or, in the case of any proposed redemption of Series 2008C 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 provisions of the Indenture.

Moneys on deposit in the Costs of Issuance Account will be paid out from time to time by the Trustee to or upon the order of the Board in order to provide for the payment or to reimburse the Board for the payment of costs of issuing the Series 2008C 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, 2008, the Costs of Issuance Account shall be closed and any moneys held therein shall be deposited to the credit of the Pledged State Aid Revenues Sub-Account.

Moneys in the Costs of Issuance Account shall be invested pursuant to the Indenture. 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.

## **INVESTMENT OF FUNDS**

### **INVESTMENT OF CERTAIN MONEYS**

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund and in the Costs of Issuance Account will be invested and reinvested by the Trustee at the written direction of a Designated Official in Investment Securities within the parameters established in the Indenture and the Investment Policy which mature no later than necessary to provide moneys when needed for payments to be made from such Fund or Account. Such Designated Official may direct the Trustee to make any such investments or reinvestments through the use of a Forward Supply Contract, to the extent permitted by State law and the Investment Policy, and the Trustee shall comply with the terms and provisions of any such Forward Supply Contract or Repurchase Agreement. The Trustee may make any and all such investments through its trust department or the Series 2008C Bond department of any bank (including the Trustee) or trust company under common control with the Trustee. All investment income shall be retained in the Fund or Account to which the investment is credited from which such income is derived. All such investments made under the Indenture must be consistent with the expectations expressed in the Tax Agreement.

### **VALUATION AND SALE OF INVESTMENTS**

Investment Securities in any Fund, Account or Sub-Account created under the Indenture will be deemed at all times to be part of such Fund, Account or Sub-Account and any profit

realized from the liquidation of such investment will be credited to such Fund, Account or Sub-Account and any loss resulting from liquidation of such investment will be charged to such Fund, Account or Sub-Account. Valuations of Investment Securities held in the Funds, Accounts and Sub-Accounts established under the Indenture will be made by the Trustee as often as may be necessary or requested by the Board to determine the amounts held therein. In computing the amounts in such Funds, Accounts and Sub-Accounts, Investment Securities therein will be valued as provided in the following paragraph.

The value of Investment Securities will mean the fair market value thereof, *provided, however*, that all SLGs will be valued at par and those obligations which are redeemable at the option of the holder will be valued at the price at which such obligations are then redeemable.

Except as otherwise provided in the Indenture, the Trustee at the written direction of a Designated Official will sell at the best price obtainable, or present for redemption, any Investment Securities held in any Fund, Account or Sub-Account held by the Trustee whenever it will be necessary to provide moneys to meet any payment or transfer from such Fund, Account or Sub-Account as the case may be.

## **PARTICULAR COVENANTS AND REPRESENTATIONS OF THE BOARD**

### **COVENANTS REGARDING PLEDGED STATE AID REVENUES**

Pursuant to Section 15(e) of the Act, the Board covenants under the Indenture, so long as there are any Outstanding Series 2008C Bonds, to provide for, collect and apply the Pledged State Aid Revenues to the payment of the Series 2008C Bonds and the provision of not less than an additional .10 times debt service on the Series 2008C Bonds. The Board and its officers will comply with all present and future applicable laws, in order to assure that the Pledged State Aid Revenues may be allocated and paid to the Board for application as provided in the Indenture.

### **COVENANTS REGARDING PLEDGED TAXES**

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. So long as any of the Series 2008C 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 this Official Statement under the heading “SECURITY FOR THE BONDS – Pledged Taxes,” the Board will direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement will be filed with (i) the County Clerks, in a timely manner to effect such abatement, and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

So long as there are any Outstanding Series 2008C 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.

#### INDEBTEDNESS AND LIENS

The Board will not issue any bonds or other evidences of indebtedness, other than the Series 2008C Bonds, which are secured by a pledge of or lien on the Pledged State Aid Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture, and will not, except as expressly authorized by the Indenture, create or cause to be created any lien or charge on the Pledged State Aid Revenues, the Pledged Taxes or such moneys, securities or funds.

#### ACCOUNTS AND REPORTS

The Board will keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Pledged State Aid Revenues, the Pledged Taxes and the Funds, Accounts and Sub-Accounts established by the Indenture, and which, together with all other books and financial records of the Board, will at all reasonable times be available for the inspection of the Trustee and the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Series 2008C Bonds or their representatives duly authorized in writing.

#### ARBITRAGE

The Board will not at any time permit any of the proceeds of the Series 2008C Bonds or other moneys to be invested in any manner that would cause any Series 2008C Bond to constitute an “arbitrage bond” as defined in the Code and Regulations. The Board will comply with the provisions of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

#### **EVENTS OF DEFAULT AND REMEDIES**

##### EVENTS OF DEFAULT

Each of the following events constitutes an Event of Default under the Indenture:

(1) if a default occurs in the due and punctual payment of interest on any Series 2008C Bond, when and as such interest becomes due and payable;

(2) if a default occurs in the due and punctual payment of the principal or Redemption Price of any Series 2008C Bond when and as the same becomes due and payable, whether at maturity or by call for redemption or otherwise;

(3) if a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions contained in the Indenture or in the Series 2008C Bonds, and such default continues for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Series 2008C 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 files a petition seeking a composition of indebtedness under the federal bankruptcy laws or under any other applicable law or statute of the United States of America or of the State of Illinois.

#### PROCEEDINGS BROUGHT BY TRUSTEE

***There is no provision for the acceleration of the maturity of the Bonds if an Event of Default occurs under the Indenture.***

If an Event of Default happens and is not remedied, then and in every such case, the Trustee, 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 Series 2008C Bonds Outstanding and upon being indemnified to its satisfaction will proceed, to protect and enforce its rights and the rights of the Owners of the Series 2008C Bonds under the Indenture forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for an accounting against the Board as if the Board were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, will deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture or enforcing any of the rights on interests of the Owner of the Series 2008C Bonds under the Series 2008C Bonds or the Indenture.

All actions against the Board under the Indenture must be brought in a state or federal court located in the State of Illinois.

The Owners of not less than a majority in aggregate principal amount of the Series 2008C Bonds at the time Outstanding may direct the time, method and place (subject to the preceding paragraph) of conducting any proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the enforcement of any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, *provided* that the Trustee will have the right to decline to follow any such direction if the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good

faith determines that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Owners not parties to such direction.

#### APPLICATION OF TRUST ESTATE AND OTHER MONEYS ON DEFAULT

During the continuance of an Event of Default, the Trustee will apply all moneys, securities, funds, Pledged State Aid Revenues and Pledged Taxes and the income therefrom (other than (i) amounts paid under the Bond Insurance Policy, which shall be applied only to pay scheduled principal of and interest on the Insured 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 Series 2008C Bonds then due, as follows:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Series 2008C Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Series 2008C 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;

SECOND: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Series 2008C 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 Series 2008C 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;

THIRD: to the payment of Swap Payments.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Series 2008C 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 Series 2008C Bonds held by or for the account of the Board, or provision satisfactory to the Trustee will be made for such payment, and all defaults under the Indenture or the Series 2008C Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefor, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be



deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners will be restored, respectively, to their former positions and rights under the Indenture. No such payment to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

#### RESTRICTIONS ON BONDHOLDERS' ACTIONS

No Owner of any Series 2008C Bond will have any right to institute any suit or proceeding at law or in equity for the enforcement or violation of any provision of the Indenture or the execution of any trust under the Indenture or for any remedy under the Indenture, unless such Owner has previously given to the Trustee written notice of the happening of an Event of Default, as provided in the Indenture, and the Owners of at least a majority in aggregate principal amount of the Series 2008C Bonds then Outstanding have filed a written request with the Trustee, and have offered it reasonable opportunity either to exercise the powers granted in the Indenture or by the laws of the State or to institute such suit or proceeding in its own name, and unless such Owners will have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or failed to comply with such request within 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Owners of Series 2008C Bonds will have any right in any manner whatever by its or their action to affect, disturb or prejudice the pledge created by the Indenture or to enforce any right under the Indenture, except in the manner provided in the Indenture; and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Series 2008C Bonds.

#### NO REMEDY EXCLUSIVE

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each remedy will be cumulative and will be in addition to every other remedy given under the Indenture or existing at law or in equity or by statute on or after the date of the execution and delivery of the Indenture.

#### WAIVER

The Owners of not less than two-thirds in aggregate principal amount of the Series 2008C Bonds at the time Outstanding, or their attorneys-in-fact duly authorized may on behalf of the Owners of all of the Series 2008C 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 Series 2008C Bonds when due. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

## PROVISIONS RELATING TO TRUSTEE

*Resignation and Removal of Trustee.* The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to the Board, all Owners of the Series 2008C Bonds and the other Fiduciaries, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below and accepted such appointment, in which event such resignation will 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 has not been appointed and accepted such appointment within a period of 60 days following the giving of notice, then the Trustee is authorized to petition any court of competent jurisdiction to appoint a successor Trustee as described below.

The Trustee may be removed at any time by an instrument in writing approved by and executed in the name of the Board and delivered to the Trustee; *provided, however*, that if an Event of Default will have occurred and be continuing, the Trustee may be so removed by the Board only with the written concurrence of the Owners of a majority in aggregate principal amount of Series 2008C Bonds then Outstanding (excluding any Series 2008C 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 Series 2008C Bonds then Outstanding, excluding any Series 2008C Bonds held by or for the account of the Board, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the Board.

*Appointment of Successor Trustee.* In case at any time the Trustee resigns or is removed or becomes incapable of acting, or is adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, is appointed, or if any public officer or court takes charge or control of the Trustee, or of its property or affairs, the Board will appoint a successor Trustee. The Board will cause notice of any such appointment made by it to be mailed to all Owners of the Series 2008C Bonds and the Bond Insurer.

If no appointment of a Trustee is made by the Board within 60 days following such resignation or renewal pursuant to the foregoing paragraph, the Trustee or the Owner of any Outstanding Series 2008C Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any successor Trustee appointed under the provisions of the Indenture must be a bank, 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 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 of the Indenture for any one or more of the following purposes:

- (1) to impose additional covenants or agreements to be observed by the Board;
- (2) to impose other limitations or restrictions upon the Board;
- (3) to surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;
- (4) to confirm, as further assurance, any pledge of or lien upon the Pledged State Aid Revenues, the Pledged Taxes or any other moneys, securities or funds;
- (5) to make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds;
- (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 will take effect only if permitted and approved and in the manner described below under the heading “AMENDMENTS - Consent of Owners.”

## **AMENDMENTS**

*General.* Except for Supplemental Indentures not requiring consent of the Owners as described above, the Owners of not less than a majority in aggregate principal amount of the Series 2008C Bonds then Outstanding will 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 supplemental indenture or indentures as may be deemed necessary and desirable by the Board for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, or (ii) waive or consent to the taking by the Board of any action

prohibited, or the omission by the Board of the taking of any action required, by any of the provisions of the Indenture or of any indenture supplemental thereto; provided, however, that nothing in the Indenture permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount 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 Series 2008C Bond, without the consent of the Owner of such Bond, or (b) except for the pledge of the Pledged State Aid Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to or on a parity with the lien of the Indenture, without the consent of the Owners of all the Series 2008C Bonds at the time Outstanding, or (c) a reduction in the aforesaid aggregate principal amount of Series 2008C 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 Series 2008C Bonds at the time Outstanding which would be affected by the action to be taken, or (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 Series 2008C Bonds held by a non-consenting Owner to the extent otherwise afforded under the Code and Regulations.

*Consent of Owners.* The Board may at any time authorize the execution and delivery of a Supplemental Indenture making a modification or amendment described in the preceding paragraph, to take effect when and as described in this paragraph. Upon the authorization of such Supplemental Indenture, a copy thereof will be delivered to and held by the Trustee for the inspection of the Owners. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved by the Trustee) together with a request to Owners for their consent thereto in form satisfactory to the Trustee, will be mailed to the Owners, but failure to mail such copy and request will not affect the validity of such Supplemental Indenture when consented to as described below. Such Supplemental Indenture will not be effective unless and until, and will take effect in accordance with its terms when (a) there has been filed with the Trustee (i) the written consents of the Owners of the required aggregate principal amount of Outstanding Series 2008C 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) the notice described below has been delivered. Any such consent will be binding upon the Owner of the Series 2008C Bonds giving such consent and upon any subsequent Owner of such Bonds and of any Series 2008C 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. Any consent, or revocation thereof, may be delivered or filed prior to any mailing or publication required by this Article and shall not be deemed ineffective by reason of such prior delivery or filing. Within 30 days of any date on which the consents on file with the Trustee and not theretofore revoked shall be sufficient under the Indenture, the Trustee shall make and deliver to the Board a written statement that the consents of the Owners of the required aggregate principal amount of Outstanding Series 2008C Bonds have been filed with the Trustee. Such written statement shall be conclusive that such consents have been so filed. The Trustee will give notice by mail to the Owners of the Series 2008C Bonds that the Supplemental Indenture has been consented to by the Owners of the required principal amount of

Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

The Indenture and the rights and obligations of the Board and of the Owners of the Series 2008C 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 Series 2008C Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Series 2008C Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Series 2008C Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required. No such modification or amendment, however, shall change or modify any of the rights or obligations of any Fiduciary without its written consent thereto.

#### **DEFEASANCE**

If the Board pays or causes to be paid or there is otherwise paid to the Owners of all Series 2008C 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 pledged under the Indenture and all covenants, agreements and other obligations of the Board to the Owners will thereupon be discharged and satisfied. In such event, the Trustee, upon request of the Board, 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 Series 2008C 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 Series 2008C 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 Series 2008C 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 will thereupon be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys have been set aside and held in trust by the Trustee at or prior to their maturity or redemption date will be deemed to have been paid as described in the preceding paragraph if the Board has delivered to or deposited with the Trustee (a) irrevocable instructions to pay or redeem all of said Bonds in specified amounts no less than the respective amounts of, and on specified dates no later than the respective due dates of, their principal, (b) irrevocable instructions to mail the required notice of redemption of any Series 2008C Bonds so to be redeemed, (c) either moneys in an amount which

will be sufficient, or Defeasance Obligations the principal of and the interest on which when due will provide moneys which will be sufficient, without further investment, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, 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 as described in this paragraph 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 as described in the preceding paragraph may not be sold, redeemed, invested, reinvested or removed from the lien of the Indenture in any manner or other Defeasance Obligations substituted therefor (any such direction to sell, redeem, invest, reinvest, remove or substitute to be referred to as a "*Subsequent Action*") unless prior to the taking of such Subsequent Action, the Trustee shall have received the following: (i) either (a) a certified copy of the proceedings of the Board authorizing the Subsequent Action, or (b) an opinion of counsel for the Board to the effect that such Subsequent Action has been duly authorized by all necessary action on the part of the Board; (ii) an opinion from a nationally recognized firm of independent public accountants to the effect that the Defeasance Obligations and cash available or to be available for payment of the Series 2008C 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 Series 2008C 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 Series 2008C Bonds to which such Bonds are otherwise entitled; and (iv) such other documents and showings as the Trustee may reasonably require.

**APPENDIX C**  
**FORM OF OPINION CO-BOND COUNSEL**

[Date of Issuance of the Series 2008C Bonds]

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

Lehman Brothers Inc.,  
as Representative of the Underwriters  
named in the Bond Purchase Agreement,  
dated April 24, 2008  
190 South LaSalle Street  
22nd Floor  
Chicago, Illinois 60603

The Bank of New York Trust Company, N.A.,  
as Trustee  
2 North LaSalle Street  
Suite 1020  
Chicago, Illinois 60602

Re: Board of Education of the City of Chicago  
Unlimited Tax General Obligation Refunding Series 2008C Bonds  
(Dedicated Revenues), Series 2008C

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the Board of Education of the City of Chicago (the “*Board*”) of its \$464,655,000 aggregate principal amount Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C (the “*Series 2008C Bonds*”). As co-bond counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates and documents, pertaining to the issuance by the Board of the Series 2008C Bonds. The Series 2008C Bonds are being issued pursuant to a Trust Indenture dated as of May 1, 2008 (the “*Indenture*”), between the Board and The Bank of New York Trust Company, N.A., as trustee (the “*Trustee*”). The Series 2008C Bonds are issued pursuant to the authority of the Local Government Debt Reform Act of the State of Illinois, as amended, resolutions adopted by the Board on February 27, 2008 (the “*2008 Authorization*”) and March 26, 2008 (the “*Series 2008C Bond Resolution*”) and the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture.

The Series 2008C Bonds are issued for the purpose of refunding all of the outstanding (i) \$45,100,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-1, \$43,350,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-2 and \$95,325,000 Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2003B-3, of the Board (collectively, the “*Series 2003B Bonds*”) and (ii) \$75,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-1, \$75,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-2, \$75,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-3 and \$73,075,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2004B-4, of the Board (collectively, the “*Series 2004B Bonds*” and, together with the Series 2003B Bonds, the “*Refunded Bonds*”) and paying costs related to the issuance of the Series 2008C Bonds.

The Series 2008C Bonds are dated the date hereof and are due (subject to optional redemption as provided in the Indenture) on December 1 of the years and in the amounts and bearing interest at the rates per annum as follows:

YEAR	PRINCIPAL AMOUNT	INTEREST RATE
2017	\$ 7,420,000	5.000%
2018	\$ 8,815,000	4.250%
2019	\$ 9,615,000	5.000%
2020	\$ 10,120,000	5.000%
2021	\$ 10,660,000	5.000%
2022	\$ 41,535,000	5.000%
2023	\$ 43,720,000	5.250%
2024	\$ 46,145,000	5.250%
2025	\$ 48,595,000	5.250%
2026	\$ 51,265,000	5.250%
2027	\$ 80,365,000	5.000%
2028	\$ 20,940,000	5.000%
2029	\$ 22,040,000	5.000%
2032	\$ 63,420,000	5.000%



In addition, the Series 2008C Bonds maturing on December 1, 2032, are subject to mandatory sinking fund redemption prior to their maturity at a redemption price equal to the principal amount thereof, plus accrued interest, if any, on December 1 of the years and in the aggregate principal amounts as follows:

Redemption Date (December 1)	Principal Amount
2030	\$23,195,000
2031	\$24,395,000
2032 (Maturity)	\$15,830,000

In our capacity as co-bond counsel, we have examined, among other things, the following:

- (a) a certified copy of the proceedings of the Board adopting the 2008 Authorization and the Series 2008C Bond Resolution and authorizing, among other things, the execution and delivery of the Indenture and the Refunding Escrow Agreements (as defined below) and the issuance of the Series 2008C Bonds;
- (b) certified copies of the 2008 Authorization and the Series 2008C Bond Resolution;
- (c) an executed counterpart of the Indenture;
- (d) an executed counterpart of the Refunding Escrow Agreement between the Board and The Bank of New York Trust Company, N.A. relating to the refunding of the Series 2003B Bonds (the “*Series 2003B Escrow Agreement*”);
- (e) an executed counterpart of the Refunding Escrow Agreement between the Board and Amalgamated Bank of Chicago relating to the refunding of the Series 2004B Bonds (the “*Series 2004B Escrow Agreement*” and, together with the Series 2003B Escrow Agreement, the “*Refunding Escrow Agreements*”); and
- (f) such other certifications, documents, showings and related matters of law as we have deemed necessary in order to render this opinion (the showings described in paragraphs (a) through (f), above, being collectively referred to as the “*Board Documents*”).

Based upon the foregoing we are of the opinion that:

1. The Board has full power and authority and has taken all necessary corporate action to authorize the execution and delivery of the Indenture.
2. The Indenture has been duly and lawfully executed and delivered by the Board and, assuming the due authorization, execution and delivery by, and the binding effect on, the Trustee, the Indenture is valid and binding upon the Board and enforceable in accordance with its terms.

3. The Indenture creates the valid pledge which it purports to create of the Trust Estate held or set aside or pledged under the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture.

4. The Refunding Escrow Agreements have been duly and lawfully executed and delivered by the Board and, assuming the due authorization, execution and delivery by, and the binding effect on, the respective escrow agents thereunder, the Refunding Escrow Agreements are valid and binding upon the Board and enforceable in accordance with their respective terms.

5. The Series 2008C Bonds have been duly and validly authorized and issued in accordance with law and the Indenture and the Series 2008C Bonds, to the amount named, are valid and legally binding general obligations of the Board, enforceable in accordance with their terms and the terms of the Indenture.

6. The form of Series 2008C Bond prescribed for said issue is in due form of law.

7. The Series 2008C Bonds are payable ratably and equally from (i) the “*Pledged State Aid Revenues*”, being that amount of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code of the State of Illinois, as amended (the “*School Code*”), or such successor or replacement fund, or act as may be enacted in the future, not in excess of \$225,000,000 available pursuant to the 2008 Authorization in any year, as shall provide for the payment of the Series 2008C Bonds, any Swap Payments and any Additional Bonds and the provision of not less than an additional .10 times debt service on the Series 2008C Bonds and any Additional Bonds in such year and (ii) the “*Pledged Taxes*,” being the ad valorem taxes levied without limitation as to rate or amount for the payment of the Series 2008C Bonds against all of the taxable property in the school district constituted by the City of Chicago pursuant to Article 34 of the School Code and governed by the Board. The Series 2008C Bonds are further secured by the other moneys, securities and funds pledged under the Indenture.

7. The Board has taken all necessary action to cause the County Collectors of The Counties of Cook and DuPage, Illinois, to deposit the Pledged Taxes directly with the Trustee for application pursuant to the Indenture.

8. Subject to the condition that the Board comply with certain covenants made to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the “*Code*”), under present law, the Series 2008C Bonds are not “private activity bonds” under the Code, and interest on the Series 2008C Bonds is excludable from gross income of the owners thereof for federal income tax purposes. Interest on the Series 2008C Bonds will not be included as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2008C Bonds will be included in “adjusted current earnings” of certain corporations for purposes of computing the alternative minimum tax for such corporations. Failure to comply with certain of those covenants could cause interest on the Series 2008C Bonds to be included in gross income retroactive to the date of issuance of the Series 2008C Bonds. Ownership of the Series 2008C Bonds may result in other federal tax consequences to certain taxpayers. We express no opinion regarding any such collateral consequences arising with respect to the Series 2008C Bonds.

9. Interest on the Series 2008C Bonds is not exempt from income taxes imposed by the State of Illinois.

The rights of the registered owners of the Series 2008C Bonds and the enforceability of provisions of the Series 2008C Bonds and the Board Documents may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Series 2008C Bonds and the Board Documents by an equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

In rendering this opinion, we have relied upon certifications of the Board and certain other parties with respect to certain material facts solely within their knowledge relating to the facilities financed or refinanced with the Series 2008C Bonds, the application of the proceeds of the Series 2008C Bonds and certain other matters pertinent to the tax-exempt status of the Series 2008C Bonds. Additionally, in rendering this opinion, we have relied upon (i) the opinions of co-bond counsel for the Series 2004B Bonds as to the validity and tax-exempt status of the Series 2004B Bonds and (ii) certain mathematical computations relating to the yields on the Series 2008C Bonds and the Refunded Bonds and on certain obligations acquired with proceeds of the Series 2008C Bonds to provide for the payment of the Refunded Bonds by Causey Demgen & Moore Inc., independent certified public accountants.

This opinion is rendered only with respect to the laws and the regulations thereunder which are in effect as of the date hereof. We assume no responsibility for updating this opinion to take into account any event, action, interpretation or change of law occurring subsequent to the date hereof that may affect the validity of any of the opinions expressed herein.

Very truly yours,

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## **APPENDIX D**

### **DESCRIPTION OF REFUNDED BONDS**

#### **Refunded Series 2003B Bonds**

<b>Series Designation</b>	<b>Principal Amount</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
Series 2003B-1	\$45,100,000	May 23, 2008	100%
Series 2003B-2	43,350,000	May 2, 2008	100
Series 2003B-3	95,325,000	May 2, 2008	100

#### **Refunded Series 2004B Bonds**

<b>Series Designation</b>	<b>Principal Amount</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
Series 2004B -1	\$75,000,000	May 8, 2008	100%
Series 2004B-2	75,000,000	May 15, 2008	100
Series 2004B-3	75,000,000	May 22, 2008	100
Series 2004B-4	73,075,000	May 29, 2008	100

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**APPENDIX E**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), 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 Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment



made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)