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

Interest on the Series 2009E Bonds is not excluded from the gross income of the owners thereof for federal income tax purposes. In the opinion of Mayer Brown LLP, Chicago, Illinois, Bond Counsel, under existing law, and assuming compliance by the Board with certain covenants, interest on the Series 2009F Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Interest on the Bonds is not exempt from present State of Illinois income taxes. See "Tax Matters" herein for a more complete discussion.

$547,335,000
BOARD OF EDUCATION OF THE CITY OF CHICAGO
Unlimited Tax General Obligation Bonds (Dedicated Revenues)

$518,210,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues)
Series 2009E
(Taxable Build America Bonds "Direct Payment")

$29,125,000
Tax-Exempt Unlimited Tax General Obligation Bonds
(Dedicated Revenues)
Series 2009F

Dated: Date of Issuance **Due: See inside front cover**

The Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009E (Taxable Build America Bonds "Direct Payment") (the "**Series 2009E Bonds**") and the Tax-Exempt Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009F (the "**Series 2009F Bonds**," and together with the Series 2009E Bonds, the "**Bonds**") will be issued by the Board of Education of the City of Chicago (the "**Board**") as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("**DTC**"). DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. Principal of and interest on the Bonds will be paid by U.S. Bank National Association, 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 disbursal to the beneficial owners of the Bonds. As long as Cede & Co. is the registered owner as nominee of DTC, payments on the Bonds will be made to such registered owner, and disbursement of such payments to beneficial owners will be the responsibility of DTC and its participants. See "**THE BONDS—Book-Entry Only System**" herein.

The proceeds of the Bonds will be used to (i) provide funds for the continued implementation of the Board's Capital Improvement Program (as described herein), (ii) fund capitalized interest on the Bonds, and (iii) pay the costs of issuance of the Bonds (including the Underwriters' discount). See "**BOARD OF EDUCATION OF THE CITY OF CHICAGO—Capital Improvement Program**" 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 Revenues and Pledged Taxes, all as described herein. To the extent that the Pledged Revenues are insufficient to pay the debt service on the Bonds, the Bonds will be payable from *ad valorem* taxes levied by the Board, without limitation as to rate or amount, against all of the taxable property in the school district governed by the Board, the 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 as security for the Bonds pursuant to the Trust Indenture dated as of September 1, 2009, between the Board and by U.S. Bank National Association, as trustee (the "**Indenture**"). See "**SECURITY FOR THE BONDS**."

Interest on the Bonds will be payable on each June 1 and December 1, commencing June 1, 2010. The maturities, amounts, interest rates, prices or yields, and CUSIP numbers of the Bonds are set forth on the inside cover.

The Series 2009E Bonds are subject to redemption prior to maturity as described herein. The Series 2009F Bonds are not subject to redemption prior to maturity.

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 Mayer Brown LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Board by its General Counsel, Patrick J. Rocks, and by its special counsel Hoogendoorn and Talbot LLP, Chicago, Illinois, and for the Underwriters by their counsel, Thompson Coburn 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 September 24, 2009.

Merrill Lynch & Co.

Siebert Brandford Shank & Co., LLC
Duncan-Williams, Inc.
Jefferies & Company

The Northern Trust Company
Grigsby & Associates, Inc.
William Blair & Company

Dated: September 10, 2009

BOARD OF EDUCATION OF THE CITY OF CHICAGO

$518,210,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues) Series 2009E
(Taxable Build America Bonds "Direct Payment")

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

Serial Bonds

Maturity December 1	Amount	Interest Rate	Yield	CUSIP* 167505
2017	$6,675,000	4.682%	4.682%	JY3
2018	6,885,000	4.782%	4.782%	JZ0
2019	7,105,000	4.882%	4.882%	KA3
2020	7,340,000	5.082%	5.082%	KB1
2021	7,590,000	5.182%	5.182%	KC9
2022	7,855,000	5.282%	5.282%	KD7
2023	8,130,000	5.382%	5.382%	KE5
2024	8,425,000	5.482%	5.482%	KF2

Term Bonds

Maturity December 1	Amount	Interest Rate	Yield	CUSIP* 167505
2029	$123,565,000	6.038%	6.038%	KG0
2039	334,640,000	6.138%	6.138%	KH8

$29,125,000
Tax-Exempt Unlimited Tax General Obligation Bonds
(Dedicated Revenues) Series 2009F

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

Serial Bonds

Maturity December 1	Amount	Interest Rate	Yield	CUSIP* 167505
2012	$5,375,000	5.000%	1.640%	JT4
2013	5,640,000	2.500%	2.070%	JU1
2014	5,785,000	5.000%	2.460%	JV9
2015	6,070,000	3.000%	2.760%	JW7
2016	6,255,000	5.000%	3.070%	JX5

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.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its 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.

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

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

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

BOARD OF EDUCATION OF

THE CITY OF CHICAGO

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Clare Muñana
Vice President

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Acting Chief Financial Officer

Opal L. Walls
Chief Purchasing Officer

Patrick J. Rocks
General Counsel

Mayer Brown LLP
Bond Counsel

A.C. Advisory, Inc.
Financial Advisor

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BOARD OF EDUCATION OF
THE CITY OF CHICAGO

$518,210,000
Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2009E
(Taxable Build America Bonds "Direct Payment")

And

$29,125,000
Tax-Exempt Unlimited Tax General Obligation Bonds
(Dedicated Revenues), Series 2009F

INTRODUCTION

General

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices hereto, is to set forth information in connection with the offering and sale by the Board of Education of the City of Chicago (the "**Board**") of $518,210,000 of its Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009E (Taxable Build America Bonds "Direct Payment") (the "**Series 2009E Bonds**") and its $29,125,000 Tax-Exempt Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009F (the "**Series 2009F Bonds**" and together with the Series 2009E Bonds, the "**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 will be used to (i) provide funds for the continued implementation of the Board's Capital Improvement Program (as described herein), (ii) fund capitalized interest on the Bonds, and (iii) pay the costs of issuance of the Bonds (including the Underwriters' discount). See "**BOARD OF EDUCATION OF THE CITY OF CHICAGO—Capital Improvement Program**" and "**ESTIMATED SOURCES AND USES OF FUNDS.**"

The Bonds will be issued under a Trust Indenture dated as of September 1, 2009 (the "**Indenture**"), by and between the Board and U.S. Bank National Association, Chicago, Illinois, as trustee and paying agent (the "**Trustee**" or "**Paying Agent**"). The Bonds will be general obligations of the Board to the payment of which the Board will pledge its full faith and credit.

Authorization for the Bonds

The Local Government Debt Reform Act of the State of Illinois, as amended (the "**Debt Reform Act**") authorizes the Board to issue alternate revenue bonds ("**Alternate Bonds**") which are general obligation bonds, backed by the full faith and credit of the Board, and which are payable from any revenue source available to the Board (the "**Alternate Revenues**"). To the extent Alternate Bonds are payable from Alternate Revenues consisting of State or federal funds that the Board has received during each of the 3 fiscal years preceding the issuance of such bonds, the Board must determine that the Alternate Revenues are sufficient in each year to pay debt service on all outstanding bonds payable from such Alternate Revenues and provide an additional 10% coverage. To the extent Alternate Bonds are payable from other sources of Alternate Revenues that do not satisfy the requirements in the preceding sentence, the Board must determine that such Alternate Revenues are sufficient in each year to pay debt service on all outstanding bonds payable from such Alternate Revenues and provide an additional 25% coverage.

Pursuant to the provisions of the School Code of the State of Illinois, as amended (the "**School Code**") and the Debt Reform Act, the Board adopted a resolution on February 27, 2008 (the "**2008 Authorization**") authorizing the issuance of Alternate Bonds in an aggregate principal amount not to exceed $1,900,000,000 which could be made payable from various sources of Alternate Revenues including: (i) not more than $225,000,000 of the State Aid payments to be made to the Board in any year pursuant to Article 18 of the School Code, and (ii) grants and other payments to be paid to the Board by the United States of America. On August 26, 2009, the Board adopted Resolution 09-0826-RS authorizing the issuance of Unlimited Tax General Obligation Bonds (Dedicated Revenues), in an aggregate amount not to exceed $801,585,000 (the "**Bond Resolution**" and, together with the 2008 Authorization, the "**Resolutions**") which authorized the issuance of the Bonds.

Security for the Bonds

The Bonds will be secured by and are payable (i) from the Pledged Revenues (as defined herein), (ii) to the extent that the Pledged Revenues are insufficient to pay the debt service on the Bonds, from the *ad valorem* taxes levied by the Board pursuant to the 2008 Authorization, 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 Revenues consist of the Pledged State Aid Revenues and the Pledged Federal Subsidy Revenues. The State Aid Revenues available for bonds issued under the 2008 Authorization are that amount of the payments received by the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future, not in excess of $225,000,000 in any year. "**Federal Subsidy Revenues**" are those payments to be received by the Board from the United States Department of the Treasury, pursuant to Section 6431 of the Code (and implementing regulations or other regulatory guidance promulgated by the Internal Revenue Service), in respect of the issuance by the Board of the Bonds as "Taxable Build America Bonds—Direct Payment." For additional information, see "**SECURITY FOR THE BONDS – General**" and "**— General State Aid**" and **—** "**Federal Subsidy Payments**" and see **APPENDIX B** – "**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.**" For a discussion of other obligations of the Board payable from Pledged State Aid Revenues available for bonds issued under the 2008 Authorization, see "**Prior 2008 Authorization Bonds and Additional Bonds**" below.

Prior 2008 Authorization Bonds and Additional Bonds

Alternate Bonds payable from the State Aid Revenues available under the 2008 Authorization are currently outstanding and additional Alternate Bonds payable from the State Aid Revenues available under the 2008 Authorization and / or from the Federal Subsidy Revenues may be issued in the future. See "**SECURITY FOR THE BONDS – Additional Bonds Payable From Pledged Revenues.**" The Board's (i) $262,785,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A, (ii) $240,975,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B, (iii) $464,655,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C and (iv) $130,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A, (collectively, the "**Prior 2008 Authorization Bonds**") are the only Alternate Bonds currently outstanding under the 2008 Authorization.

Other Alternate Bonds

In addition to the Prior 2008 Authorization Bonds, the Board has issued and currently has outstanding $4.2 billion in Alternate Bonds payable from Alternate Revenues, including designated amounts of the Board's State Aid Revenues that do not constitute Pledged State Aid Revenues which secure the Bonds. See**, "BOARD OF EDUCATION OF THE CITY OF CHICAGO - Outstanding Debt Obligations.**" In the future, the Board may issue additional Alternate Bonds payable from additional designated amounts of the Board's State Aid Revenues (that are not Pledged State Aid Revenues which secure the Bonds) under future authorizing resolutions. See "**SECURITY FOR THE BONDS – Other Additional Indebtedness.**"

THE BONDS

General

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

The Bonds shall be issued only in fully registered form without coupons and shall be dated the date of issuance. Each Bond shall bear interest from the interest payment date to which interest has been paid or as of the date on which it is authenticated prior to the first date on which interest is to be paid, which interest shall be payable on June 1 and December 1 of each year, commencing June 1, 2010, computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds shall mature on December 1 of each of the years and in the principal amounts and shall bear interest at the respective rates shown on the inside cover page hereof. The Bonds shall be issued in Authorized Denominations, as defined in the Indenture (but no single Bond shall represent principal maturing on more than one date). 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 Series 2009E Bonds as "Build America Bonds"

The Board is making the irrevocable election to have Section 54AA of the Internal Revenue Code of 1986, as amended (the "**Code**") apply to the Series 2009E Bonds so the Series 2009E Bonds may qualify as "build America bonds" under Code Section 54AA(d). The Board is further making the irrevocable election to have Section 54AA(g) of the Code apply to the Series 2009E Bonds so the Series 2009E Bonds may qualify as "qualified bonds" under Code Section 54AA(g) in order to receive the refundable credits allowed to issuers pursuant to Sections 54AA(g)(1) and 6431 of the Code with respect to "qualified bonds" (the "**Federal Subsidy Payments**"). Under current law, the Federal Subsidy Payments are to be paid by the United States directly to any issuer of bonds that qualify as "build

America bonds" and as "qualified bonds" in an amount equal to 35% of the interest payable by such issuer on such bonds on each interest payment date, provided that certain requirements, as described in the Code and related IRS pronouncements, as to the uses and investment of the bond proceeds and other matters, are continuously satisfied by such issuer. The Board is covenanting to comply with the requirements of the Code necessary to maintain the qualification of the Series 2009E Bonds as "build America bonds" under Code Section 54AA(d) and as "qualified bonds" under Code Section 54AA(g). In the event that the Board does not comply with such requirements, the Board may be retroactively disqualified from being eligible to receive the Federal Subsidy Payments otherwise allowable with respect to the Series 2009E Bonds from the date of issuance of the Series 2009E Bonds, regardless of the date on which the event causing such disqualification occurs. In order actually to be paid the Federal Subsidy Payment with respect to each interest payment under the Series 2009E Bonds, the Board, or the Paying Agent with respect to the Series 2009E Bonds, must complete, sign and file IRS Form 8038-CP not earlier than 90 days nor later than 45 days prior to each interest payment date with respect to the Series 2009E Bonds. Pursuant to the Indenture, the Trustee shall file with the Internal Revenue Service all required documentation and certifications to direct that the Federal Subsidy Revenues shall be paid directly to the Trustee as agent of the Board.

Redemption

Series 2009E Bonds.

Mandatory Redemption The Series 2009E Bonds maturing on December 1, 2029, are subject to mandatory redemption prior to maturity, in part selected on a pro rata basis within a maturity, at a redemption price equal to the principal amount thereof, plus accrued interest, in the aggregate principal amounts set forth in the following table:

Redemption Dates December 1	Principal Amount
2025	$22,810,000
2026	23,725,000
2027	24,675,000
2028	25,665,000
2029*	26,690,000

*Final Maturity

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The Series 2009E Bonds maturing on December 1, 2039, are subject to mandatory redemption prior to maturity, in part selected on a pro rata basis within a maturity, at a redemption price equal to the principal amount thereof, plus accrued interest, in the aggregate principal amounts set forth in the following table:

Redemption Dates December 1	**Principal Amount**
2030	$27,775,000
2031	28,905,000
2032	30,085,000
2033	31,310,000
2034	32,585,000
2035	33,915,000
2036	35,300,000
2037	36,735,000
2038	38,235,000
2039*	39,795,000

*Final Maturity

Make-Whole Redemption. The Series 2009E Bonds are subject to redemption prior to maturity at the option of the Board, in whole or in part, and if in part shall be selected on a pro rata basis within a maturity, on any Business Day, at the "Make-Whole Redemption Price" (as defined herein) in integral multiples of $5,000, at the "**Make-Whole Redemption Price**," which is the greater of (i) 100% of the principal amount of the Series 2009E Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009E Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009E Bonds are to be redeemed, discounted to the date on which the Series 2009E Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the "**Treasury Rate**" (defined below) plus 35 basis points; plus, in each case, accrued and unpaid interest on the Series 2009E Bonds to be redeemed on the redemption date.

"**Treasury Rate**" means, with respect to any redemption date for a particular Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"**Comparable Treasury Issue**" means, with respect to any redemption date for a particular Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bonds to be redeemed.

"**Comparable Treasury Price**" means, with respect to any redemption date for a particular Bond, (i) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (ii) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all such quotations.

"**Designated Investment Banker**" means one of the Reference Treasury Dealers appointed by the Board.

"**Reference Treasury Dealer**" means each of the four firms, specified by the Board from time to time, that are primary United States Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the Board will substitute another Primary Treasury Dealer.

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 P.M., New York City time, on the third Business Day preceding such redemption date.

Extraordinary Optional Redemption. The Series 2009E Bonds are subject to redemption prior to maturity at the option of the Board, in whole or in part, and if in part shall be selected on a pro rata basis within a maturity, upon the occurrence of an Extraordinary Event (defined below), at the "**Extraordinary Optional Redemption Price**," which is the greater of (i) 100% of the principal amount of the Series 2009E Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009E Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009E Bonds are to be redeemed, discounted to the date on which the Series 2009E Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the adjusted Treasury Rate (defined above) plus 100 basis points; plus, in each case, accrued interest on the Series 2009E Bonds to be redeemed to the redemption date.

"**Extraordinary Event**" means a change that has occurred to Section 54AA or 6431 of the Code (as such sections were added by Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, pertaining to Build America Bonds), or to any guidance published by the Internal Revenue Service or the United States Department of the Treasury with respect to such section or any other determination by the Internal Revenue Service or the United States Department of the Treasury, pursuant to which the Federal Subsidy Revenues are reduced or eliminated, and which is not the result of any act or omission by the Board to satisfy the requirements to qualify to receive the Federal Subsidy Revenues.

Series 2009F Bonds Optional Redemption. The Series 2009F Bonds are not subject to redemption prior to maturity.

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

Whenever the Trustee is required to redeem Series 2009E Bonds pursuant to the mandatory sinking fund provisions of the Indenture, the Trustee shall select the Series 2009E 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.

Whenever Series 2009E Bonds are redeemed, whether pursuant to mandatory sinking fund redemption, make-whole optional redemption or extraordinary optional redemption, the particular Bonds or portion thereof to be redeemed shall be selected as follows: (i) any Bond of a denomination of more than $5,000 shall be in the principal amount of an Authorized Denomination and (ii) in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of denominations of $5,000 which is obtained by dividing the principal amount of such Bond to be redeemed in part by $5,000. If all Bonds are held in book-entry only form, the particular Bonds or portions thereof to be redeemed shall be selected by the securities depository for the Bonds in such manner as such securities depository shall determine.

Notice of Redemption. For a description of the giving of notices while the Bonds are in the book-entry only system, see "**— Book-Entry Only System**" below. When the Trustee shall receive notice from the Board of its election or direction to redeem Bonds pursuant to the Indenture or when the Trustee shall be required to redeem Bonds pursuant to the Indenture, the Trustee shall give notice, in the name of the Board, of the redemption of such Bonds, which notice shall specify, the maturities of the Bonds to be redeemed, the date fixed for the 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 shall 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 shall further state that on the redemption 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 shall cease to accrue and be payable. The Trustee shall 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 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 shall not affect the validity the redemption of any other Bonds as to which proper notice was given.

Bond Registration and Transfers

For a description of the procedure to transfer ownership of a Bond of any series while in the book-entry only system, see "**— Book-Entry Only System**" below. Subject to the limitations described below, the Bonds are transferable upon surrender thereof at the principal corporate trust office of the Trustee, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to, the Trustee and duly executed by the 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.

Book-Entry Only System

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

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

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity in a series of Bonds 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 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

NEITHER THE BOARD NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, CEDE & CO. OR ANY PARTICIPANT; THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL 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.

ESTIMATED SOURCES AND USES OF FUNDS

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

Estimated Sources:	
Principal amount of the Bonds	$547,335,000.00
Net original issue premium	2,221,004.20
Total Estimated Sources of Funds	$549,556,004.20
Estimated Uses:	
Deposit to the Project Fund	$499,013,013.36
Costs of issuance[1]	3,783,016.26
Deposit to fund capitalized interest [2]	46,759,974.58
Total Estimated Uses of Funds	$549,556,004.20

[1] Includes the Underwriters' discount and rating agency, legal and accounting fees and other estimated costs of issuance, which will be deposited in the Project Fund.

[2] Represents capitalized interest which, together with Pledged Revenues, is sufficient to satisfy the payment of interest on the Bonds to December 1, 2011.

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) State Aid Revenues which are payments received by the Board in any year pursuant to Article 18 of the School Code, or such successor or replacement fund or act as may be enacted in the future, not in excess of $225,000,000 available under the 2008 Authorization in any year, and Federal Subsidy Revenues received by the Board in respect of the issuance by the Board of the Series 2009E Bonds as "Taxable Build America Bonds—Direct Payment," (ii) the *ad valorem* taxes levied against all of the taxable property in the School District without limitation as to rate or amount, and pledged under the Indenture as security for the Bonds (the "**Pledged Taxes**"), (iii) all Funds, Accounts and Sub-Accounts established pursuant to the Indenture, 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. "**Pledged Revenues**" are the amount of State Aid Revenues sufficient to provide for the payment of annual debt service on the Prior 2008 Authorization Bonds and, together with the Federal Subsidy Revenues, to provide for the payment of annual debt service on the Bonds and any Additional Bonds. In addition, Pledged Revenues include such additional amounts of State Aid Revenues sufficient to provide: (i) .10 times coverage on debt service provided from State Aid Revenues, and (ii) .25 times coverage on debt service provided from Federal Subsidy Revenues. As described herein, the Pledged Taxes have been levied and will be collected only as and to the extent that the Pledged Revenues are not available in sufficient amounts to pay the debt service on the Bonds. See **APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

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 $4,964 in fiscal year 2005, $5,164 in fiscal year 2006, $5,334 in fiscal year 2007, $5,734 in fiscal year 2008 and $5,959 in fiscal year 2009. 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, $1,466 for fiscal year 2007, $1,638 for fiscal year 2008 and $1,861 for fiscal year 2009. 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 2000 through 2009, the required contributions for Supplemental General State Aid allocations to individual schools, and the net amount available for deposit into the General Fund.

General State Aid
Fiscal Years 2000 – 2009
(Dollars in Millions)

Fiscal Year	**Total GSA Claim**(1)	**Supplemental General State Aid Allocation**	**Unrestricted GSA General Fund Deposit**(2)
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
2008	1,091.1	261.0	830.1
2009	1,139.7	261.0	878.7

(1) Source: Illinois State Board of Education. Net of Illinois State Board of Education audit adjustments. The Illinois State Board of Education has not yet certified General State Aid revenues for the Board for 2010.
(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 (i) changes in the equalized assessed valuation of property within the School District, (ii) the addition of new property to the School District's tax base, and (iii) the determination of the School District's maximum operating tax rate in any given year under the Illinois Property Tax Extension Limitation Law (the "**Limitation Law**").

Federal Subsidy Revenues

The Federal Subsidy Revenues are revenues consisting of Federal Subsidy Payments received by the Board from the United States Department of the Treasury, pursuant to Section 6431 of the Code (and implementing regulations or other regulatory guidance promulgated by the Internal Revenue Service), in respect of the issuance by the Board of the Series 2009E Bonds as "Taxable Build America Bonds—Direct Payment." Under current law, the Federal Subsidy Payments are to be paid by the United States directly to any issuer of bonds that qualify as "build America bonds" and as "qualified bonds" in an amount equal to 35% of the interest payable by such issuer on such bonds on each interest payment date. See, **THE BONDS -- The Series 2009E Bonds as "Build America Bonds.**"

Pledged Taxes

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

Debt Service Fund 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 Revenues Account," the "Pledged Taxes Account," the "Bond Payment Account" and the "Swap Payment Account." The Pledged Revenues Account consists of the "Interest Deposit Sub-Account," the "Pledged State Aid Revenues Sub-Account," the "Carryover Balance Sub-Account" and the "Pledged Federal Subsidy Revenues Sub-Account". The Bond Payment Account consists of the "Interest Sub-Account" and the "Principal Sub-Account."

The Trustee shall deposit to the credit of the Interest Deposit Sub-Account an amount of capitalized interest to be applied to the interest coming due on June 1 and December 1 of 2010 and an amount of capitalized interest to be applied to the interest coming due on June 1 and December 1 of 2011. The Trustee shall also deposit to the credit of the Interest Deposit Sub-Account: (i) any amounts paid by the Board to the Trustee from time to time with instructions for such deposit; and (ii) any payments made by Swap Providers, if any, under Swap Agreements to the extent set forth in a certificate of a Designated Official filed with the Trustee. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Bonds. All or the applicable portion of each annual capitalized interest amount described above and any payments made by Swap Providers 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. See **APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.**"

Application of Pledged Revenues; Abatement of Pledged Taxes

All Federal Subsidy Revenues received from the United States Department of the Treasury shall be deposited into the Pledged Federal Subsidy Revenues Sub-Account. On December 31 of each Year, the Trustee shall transfer from the Pledged Federal Subsidy Revenues Sub-Account to the Interest Sub-Account of the Bond Payment Account all amounts deposited into the Pledged Federal Subsidy Revenues Sub-Account during such Year (the "**Pledged Federal Subsidy Revenues Sub-Account Transfer**").

On February 15, 2010, the Board shall deposit Pledged State Aid Revenues in the amount of $854,916 into the Carryover Balance Sub-Account. On December 31 of each year, beginning December 31, 2011, the Trustee shall, immediately prior to making the Pledged Federal Subsidy Revenues Sub-Account Transfer described in the preceding paragraph, transfer the amount on deposit in the Carryover Balance Sub-Account into the Interest Sub-Account of the Bond Payment Account (the "**Carryover Balance Sub-Account Transfer**").

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 and sufficient to cause the amount on deposit in said Sub-Account to equal the Pledged State Aid Revenues Deposit Requirement (as set forth in the Indenture). When the amount of the Pledged State Aid Revenues Deposit Requirement, plus the amount of the most recent Carryover Balance Sub-Account Transfer and Pledged Federal Subsidy Revenues Sub-Account Transfer, is at least equal to the then-applicable Pledged Revenues Requirement, the Board shall take such actions as are necessary to abate in full the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date. The Board shall make the deposit required pursuant to this paragraph on such earlier date as may be necessary in the future to permit the Board to make the abatement of taxes described in the preceding sentence.

On or before February 16 of each year, whenever sufficient funds are on deposit in the Pledged Revenues Account, plus the amount of the most recent Carryover Balance Sub-Account Transfer and Pledged Federal Subsidy Revenues Sub-Account Transfer, **a**s shall be necessary to pay the principal of and interest on the Bonds due during the current Bond Year, the Trustee shall deliver to the Board a notice evidencing the sufficiency of such deposit for said purpose and directing the Board to take such actions as are necessary to abate the Pledged Taxes with respect to the Bonds.

In the event that on any Deposit Date there has been deposited to the credit of the Pledged Revenues Account, plus the amount of the most recent Carryover Balance Sub-Account Transfer and Pledged Federal Subsidy Revenues Sub-Account Transfer, an insufficient amount to satisfy the amount described in the preceding paragraph, the Board shall take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the Pledged Revenues Account, to provide funds sufficient to satisfy such amount described in the preceding paragraph.

On December 1 of each Year, but commencing in 2012 with respect to the transfer described in clause (i) below, following the transfers required to be made to the Bond Payment Account and the Swap Payment Account pursuant to the Indenture, the following transfers and withdrawals shall be made: (i) an amount equal to the Carryover Balance (as defined below) shall be transferred from the Pledged State Aid Revenues Sub-Account to the Carryover Balance Sub-Account; (ii) all remaining amounts on deposit in the Pledged State Aid Revenues Sub-Account and in the Swap Payment Account shall be withdrawn from such Sub-Accounts and paid to the Board free and clear of the lien of this Indenture, which withdrawals shall be made prior to any deposits to the Pledged State Aid Revenues Sub-Account. The Carryover Balance determined on December 1 of each Year shall equal the sum of the Pledged State Aid Revenues Deposit Requirement for that Year plus the amount of the most recent Carryover Balance Sub-Account Transfer minus the Pledged State Aid Revenues Sub-Account Requirement for that Year. See **APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**."

Pledge of Funds, Accounts and Sub-Accounts

In addition to the Pledged Revenues and the Pledged Taxes, all Funds, Accounts and Sub-Accounts established pursuant to the Indenture are pledged to the payment of the Bonds. See **APPENDIX B – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."**

Prior 2008 Authorization Bonds

Alternate Bonds payable from the State Aid Revenues available under the 2008 Authorization are currently outstanding and additional Alternate Bonds payable from the State Aid Revenues available under the 2008 Authorization may be issued in the future under other resolutions of the Board. See "**SECURITY FOR THE BONDS – General**" and "**– General State Aid.**" The Board's (i) $262,785,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A, (ii) $240,975,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B, (iii) $464,655,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C and (iv) $130,000,000 Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A, (collectively, the "**Prior 2008 Authorization Bonds**") are the only Alternate Bonds currently outstanding under the 2008 Authorization.

After issuance of the Bonds, $254,250,000 of the $1,900,000,000 aggregate principal amount of Alternate Bonds authorized under the 2008 Authorization will remain available for issuance by the Board. For additional information, see **BOARD OF EDUCATION OF THE CITY OF CHICAGO – Outstanding Debt Obligations.**"

Additional Bonds Payable From Pledged Revenues

Pursuant to the Indenture, the Board reserves the right to issue Additional Bonds from time to time payable from (i) all or any portion of the Pledged State Aid Revenues or any other source of payment which may be pledged under the Debt Reform Act, and any such Additional Bonds shall share ratably and equally in the Pledged State Aid Revenues with the Bonds and the Prior 2008 Authorization Bonds; and / or (ii) all or any portion of the Pledged Federal Subsidy Revenues or any other source of payment which may be pledged under the Debt Reform Act, and any such Additional Bonds shall share ratably and equally in the Pledged Federal Subsidy Revenues with the Bonds; provided, however, that no Additional Bonds may be issued except in accordance with the provisions of the Debt Reform Act as in existence on the date of issuance of the Additional Bonds. The Board reserves the right to issue bonds or other evidences of indebtedness which are subordinate to the Bonds and are payable either from the State Aid Revenues available under the 2008 Authorization or from the Federal Subsidy Payments. For additional information see "**INTRODUCTION - - Authorization for the Bonds.**"

Other Additional Indebtedness

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

Bonds Are Obligations of the Board

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

BOARD OF EDUCATION OF THE CITY OF CHICAGO

General

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

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

Governing Body

Pursuant to the provisions of Public Act 89-15, approved and effective May 30, 1995 (the "**1995 Amendatory Act**"), the then-existing 15-member Chicago Board of Education (the "**Prior Board**") was replaced with the Chicago School Reform Board of Trustees of the Board of Education of the City of Chicago, Illinois (the "**Reform Board of Trustees**"). Under the 1995 Amendatory Act, the Reform Board of Trustees served as the governing board of the School District until June 30, 1999. On July 1, 1999, by operation of the 1995 Amendatory Act, the Reform Board of Trustees became the Board. The members of the Board are appointed by the Mayor of the City (the "**Mayor**") and are listed below. The appointments to the Board do 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:

Michael W. Scott is President of the Chicago Board of Education and he is the President of Michael Scott & Associates, LLC, a real estate development and investment firm. He also is a Commissioner on the Public Building Commission of Chicago. Formerly, Mr. Scott was Vice President of Regulatory Affairs for Comcast Corporation, Executive Director of the Lawndale People's Planning and Action Council, and Vice President of Pyramidwest Development Corporation. He has served the City of Chicago over three decades under four different mayors. He was first appointed to the Board of Education by Mayor Jane Byrne in 1980. He also served under the late Mayor Harold Washington as Special Assistant to the Mayor, Director for the Mayor's Office of Special Events, and Chief Cable Administrator for the City of Chicago's Office of Communication. Under the late Mayor Eugene Sawyer, he again served as Director of the Mayor's Office of Special Events. He was appointed a second time to the Board of Education, this time as president, by Mayor Richard M. Daley from 2001 to 2006, and again in 2009. Mr. Scott currently serves on the board of directors for the Community Bank of Lawndale and for a number of civic and charitable organizations, including Mount Sinai Hospital, Better Boys Foundation and the Chicago Historical Society.

Clare Muñana is Vice President of the Board and a public sector, not-for-profit and management consultant operating her own firm. Ms. Muñana has performed numerous domestic and international engagements for public sector and private sector clients in the U.S., Europe, Africa and Latin America. Ms. Muñana holds a Bachelors degree from Boston College, Masters degree in International Relations from the School of Advanced International Studies at The Johns Hopkins University and a Masters in Business (MBA) from the Kellogg Graduate School of Management at Northwestern University. Ms. Muñana also holds a certificate in French Civilization and Language from the Sorbonne. Ms. Muñana is a Board Member of The Aspen Institute, The Chicago Council on Global Affairs, The Field Museum, and a Trustee of the National Museum of Mexican Arts. She serves with several other civic groups, including the Chicago Public Education Fund and Nuestro Futuro, an initiative of the Chicago CommunityTrust dedicated to enhancing philanthropy within the Latino community.

Norman R. Bobins is chairman of Norman Bobins Consulting, LLC (NBC), which provides financial consulting services to various clients. He also serves as the non-executive chairman of The PrivateBank and Trust Company. Prior to that, Mr. Bobins was the chairman and chief executive officer 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, chairman of the board of trustees of WTTW Communications, Inc., and member of the Field Museum, the Newberry Library and the Children's Brain Research Foundation.

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

Alberto A. Carrero, Jr. is President of CBSS, USA, a firm which provides financial, operational and business consulting, advice and services. Mr. Carrero retired from Banco Popular North America ("**Banco Popular**") as Senior Vice President at the end of 2008, after a 21-year career which allowed him to hold a variety of executive positions in several different states in the U.S. 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. On November 19, 2008, he was reappointed by the Board to serve as a Trustee of the Public School Teachers' Pension and Retirement Fund of Chicago. His affiliations include membership in the National Association of Latino Elected and Appointed Officials and the Institute of Puerto Rican Art and Culture, where he serves as a member of the Financial Committee. 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:

Member	Term Expires
Michael W. Scott, 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	Ron Huberman
Chief Education Officer	Barbara Eason-Watkins
Chief Administrative Officer	Robert Runcie
Chief Operating Officer	Robert Runcie
Acting Chief Financial Officer	Christina Herzog
Chief Purchasing Officer	Opal L. Walls
General Counsel	Patrick J. Rocks

Ron Huberman is the Chief Executive Officer of the Board. Prior to joining the Board, Mr. Huberman served as President of the Chicago Transit Authority (CTA), the second largest transit agency in the country. At CTA, he instituted a company-wide turnaround plan based on performance management principles. Prior to joining the CTA, Mr. Huberman also served as Chief of Staff for Mayor Richard M. Daley, and Executive Director of the City of Chicago Office of Emergency Management and Communication. Mr. Huberman holds a Bachelor's degree in English and Psychology from the University of Wisconsin at Madison and a Master's degree in Business Administration and Social Service Administration from the University of Chicago, where he was both a Paul and Daisy Soros Fellow and an Albert Schweitzer Fellow.

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.

Robert Runcie is the Chief Administrative Officer and Chief Operating Officer of the Board. Mr. Runcie previously served as the Board's Chief Information Officer. Prior to joining the Board, Mr.

Runcie was the president and founder of a Chicago-based management consulting and technology service company specializing in project management and systems of implementation. Mr. Runcie graduated from Harvard and has an MBA from Northwestern University's Kellogg School of Management. He is also a member of the current class of the Broad Superintendents Academy.

Christina Herzog was recently appointed Acting Chief Financial Officer of the Board effective August 30, 2009. Ms. Herzog has served as the Board's Budget and Management Director. She has been with CPS in the Office of Budget and Management since 2004, also serving as Senior Manager for Schools and Instructional Programs, Manager for the School Support Unit, and Deputy Budget Director. Prior to joining the Board, Ms. Herzog worked at both KPMG and Deloitte & Touche. Ms. Herzog graduated from the University of Illinois at Champaign-Urbana with a degree in Business Management and Organizational Administration and holds a master's degree from the University of Chicago's Irving B. Harris School for Public Policy.

Opal L. Walls is the Chief Purchasing Officer of the Board. Ms. Walls previously served as the Board's Deputy Purchasing Officer and Director of Finance and Administration for the Department of Procurement and Contracts. Ms. Walls also served in the capacity of Project Manager for the Controller's Office. Prior to joining the Board, Ms. Walls worked for Allstate Insurance Company in Northbrook, Illinois and served in the capacity of Benefits Consultant, Pension Analyst and Senior Portfolio Manager. Ms. Walls holds a Bachelor of Science degree in Business Administration from Elmhurst College of Illinois.

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 666 attendance centers consisting of 483 elementary schools, 116 high schools and 67 charter schools serving 407,955 children.

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

School Year	Elementary School	High School	Combined
2008/2009	294,789	113,166	407,955
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

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.

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 December 31, 2008, approximately $3.9 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. The Board expects to issue additional bonds up to the remaining amount authorized pursuant to the Resolutions before December 31, 2009. 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 2009 results from the Illinois Standards Achievement Test show that 67.8% of students are meeting or exceeding state standards in reading, while 72.1% are meeting or exceeding state standards in math. Overall, the composite scores are up 38.3% 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 2009 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, 2009 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 are effective from July 1, 2007 to June 30, 2012. Each agreement provides for a 4% increase to the employees' salary schedules in each year of the agreement 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 2008, the Board adopted and achieved a balanced budget. The Board also adopted a balanced budget for fiscal year 2009 that reflected General Operating Fund appropriations of $5.328 billion, of which $106.4 million was derived from available fund balances. The most recent audited financial statements are for the fiscal year ended June 30, 2008, and are included as **APPENDIX A**.

On August 26, 2009 the Board adopted its fiscal 2010 budget which can be found on the Board's website: http://www.cps.edu/About_CPS/Financial_information. The appropriation for the fiscal year 2010 operating budget totals more than $5.3 billion, the debt service budget totals more than $499 million, and the Capital Projects budget totals more than $1.03 billion.

The fiscal year 2010 budget reflects multiple fiscal challenges including a Federal and State economic recession, increased unemployment, uncertainty regarding the State's fiscal situation, and delays and reductions in State funding of the Board.

To address these challenges, the Board's fiscal year 2010 budget reflects significant budget cuts, an increase in property taxes, several short term funding sources that may not be available in subsequent fiscal years including federal stimulus funds, certain federal aid programs, use of prior-year fund balances, and a one-time acceleration of property taxes as a result of a change in State law. The Board is developing a plan to reduce its fiscal year 2010 planned expenditures by $61 million to eliminate the need to draw down prior-year fund balances.

General Operating Fund Balances

As of June 30, 2009, the Board had an estimated fund balance of $491.0 million, of which $248.9 million is expected to be reserved for encumbrances and other specific purposes. The remaining unreserved balance is expected to be $242.0 million, all of which is expected to be designated to provide operating capital for future years. The fiscal year 2010 budget re-appropriates $61.0 million out of $242.0 million of estimated unreserved fund balance to balance the General Fund which the Board plans to eliminate by reducing planned expenditures. In addition, $45.6 million out of $114.5 million expected to be reserved for specific purposes is re-appropriated for the Supplemental General State Aid Fund.

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

(Amounts in Thousands)

	Actual (as of June 30)				Year-End Estimate 2009	Budget 2010
	2005	2006	2007	2008		
Revenues:						
Property Taxes	$1,587,803	$1,666,118	$1,716,516	$1,763,282	$1,865,800	$2,065,100
Replacement Taxes	94,546	131,639	147,403	159,805	132,800	105,800
State Aid	1,417,423	1,492,361	1,549,493	1,692,351	1,324,500	1,468,300
Federal Aid	746,403	757,731	711,963	832,526	1,094,000	1,470,500
Investment Income	14,003	36,874	61,595	40,905	23,600	5,600
Other	85,377	101,129	95,534	96,816	111,600	106,142
Total Revenues	$3,945,555	$4,185,852	$4,282,504	$4,585,685	$4,552,300	$5,221,442
Expenditures						
Instruction	$2,429,014	$2,538,909	$2,491,653	$2,575,124	2,824,602	3,153,435
Pupil Services	323,225	333,968	349,324	362,325	382,325	407,184
Support Services	821,583	893,041	916,334	986,905	1,025,128	1,112,725
Food Services	173,872	172,774	179,902	181,778	191,515	230,155
Community Services	42,325	46,179	45,467	45,708	55,750	54,993
Teachers' Pension	65,045	75,398	155,563	206,651	241,231	338,305
Other	7,332	24,824	8,126	36,194	28,749	31,075
Total Expenditures	$3,862,396	$4,085,093	$4,146,369	$4,394,685	$4,749,300	$5,327,872
Revenues in Excess of (less than) Expenditures	$ 83,159	$ 100,759	$ 136,135	$ 191,000	$ (197,000)	$ (106,430)
Other Financing Sources	328	4,145	1,904	3,813	$ 18,400	-
Change in Fund Balance						
Revenues and Other Financing Sources in Excess of (Less than) Expenditures)	$ 83,487	$ 104,904	$ 138,039	$ 194,813	$ (178,600)	$ (106,430)
Fund Balance, Beginning of Period as restated (‡)	307,506	390,993	495,897	474,783	669,596	490,996
Fund Balance, End of Period (‡)	$ 390,993	$ 495,897	$ 633,936	$ 669,596	$ 490,996	$ 384,566
Composition of Ending Fund Balance:						
Reserved for:						
Encumbrances	$ 97,313	$ 102,286	$ 97,731	$ 132,684	$ 134,496	$ 134,496
Specific Purposes	45,134	85,891	131,362	104,521	114,500	68,900
Total Reserved Fund Balance	$ 142,447	$ 188,177	$ 229,093	$ 237,205	$ 248,996	$ 203,396
Unreserved:						
Designated to Provide Operating Capital	$ 190,000	$ 218,400	$ 233,200	$ 258,000	$ 242,000	$ 181,170
Undesignated	58,546	89,320	171,643	174,391	-	-
Total Unreserved	$ 248,546	$ 307,720	$ 404,843	$ 432,391	$ 242,000	$ 181,170
Total Fund Balance	$ 390,993	$ 495,897	$ 633,936	$ 669,596	$ 490,996	$ 384,566

* The Board reports its financial activities through the use of fund accounting and follows the modified accrual basis of accounting for its Governmental Funds. See **APPENDIX A – "Audited Financial Statements for Fiscal Year 2008."**

Outstanding Debt Obligations

Long-Term Debt Obligations. In addition to the Bonds, the Board has approximately $4.2 billion aggregate principal amount of outstanding Alternate Bond debt. The Board's outstanding long-term debt also includes approximately $386 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.

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Board's Overlapping Debt Schedule

as of August 27, 2009

(Dollars in Thousands)

	Amount
Direct Debt	
The Bonds	$ 547,335
Total Prior Bonds	4,215,032
Leases Securing PBC Bonds (principal component)	386,385
Total Direct Debt	$5,148,752

	Amount	Percent Applicable	Amount Applicable
Overlapping Debt[1]			
City	$6,558,654	100%	$ 6,558,654
Chicago Park District[2]	814,290	100%	814,290
Water Reclamation District	2,115,928	47.22%	999,141
Cook County	3,144,605	45.58%	1,433,311
Forest Preserve District	115,105	46.24%	53,225
Total Overlapping Debt			$ 9,858,622
Total Direct and Overlapping Debt			$15,007,374

Selected Debt Statistics

Population (2007)	2,896,016 [4]
Equalized Assessed Valuation (2008)[3]	73,651,158 [5]
Estimated Fair Market Value (2007)	320,503,503 [6]

	Per Capita[7]	% EAV	% FMV
Direct Debt	$1,777.87	6.99%	1.61%
Total Direct and Overlapping Debt	$5,182.08	20.38%	4.68%

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

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Board's Debt Service Schedule
As of September 10, 2009(1)

Calendar Year	Prior Bonds(2)	PBC Leases	The Bonds	Total Annual Debt Service
2009	$ 315,491,153	$ 52,103,825	$ -0-	$ 367,594,978
2010	310,239,114	52,163,338	38,268,911	400,671,363
2011	326,667,725	52,232,025	32,264,187	411,163,937
2012	309,186,589	52,318,625	37,639,187	399,144,401
2013	329,975,412	52,359,513	37,635,437	419,970,362
2014	319,264,025	52,430,550	37,639,437	409,334,012
2015	330,076,124	52,467,613	37,635,187	420,178,924
2016	321,260,839	52,519,550	37,638,087	411,418,476
2017	325,591,308	52,600,125	37,745,337	415,936,770
2018	321,544,621	52,664,600	37,642,814	411,852,035
2019	345,694,872	30,635,500	37,533,573	413,863,945
2020	375,148,836	-	37,421,707	412,570,543
2021	382,695,643	-	37,298,688	419,994,331
2022	377,355,048	-	37,170,374	414,525,422
2023	362,618,208	-	37,030,473	399,648,681
2024	370,364,961	-	36,887,916	407,252,877
2025	370,430,167	-	50,811,058	421,241,225
2026	370,261,589	-	50,348,790	420,610,379
2027	366,120,256	-	49,866,275	415,986,531
2028	368,938,515	-	49,366,398	418,304,913
2029	364,599,309	-	48,841,745	413,441,054
2030	350,042,999	-	48,315,203	398,358,202
2031	349,675,931	-	47,740,374	397,416,305
2032	110,131,141	-	47,146,185	157,277,326
2033	69,637,034	-	46,524,568	116,161,602
2034	69,575,493	-	45,877,760	115,453,253
2035	54,448,005	-	45,207,692	99,655,697
2036	41,340,053		44,510,990	85,851,043
2037			43,779,276	43,779,276
2038			43,024,481	43,024,481
2039			42,237,617	42,237,617
Total	$8,308,374,970	$554,495,264	$1,261,049,725	$10,123,919,959

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

(2) Interest on variable rate bonds is calculated at assumed rates of between 4.5% and 6% per annum, although actual rates may vary. Interest on Bonds that are the subject of an interest rate swap is calculated at the applicable swap rate. See " **– Board's Interest Rate Swap Agreements**" below.

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Legal Debt Margin Information of the Board

Last Five Available Fiscal Years
(Dollars in Thousands)
As of June 30

	2004	2005	2006	2007	2008
Assessed Value	$53,175,365	$55,283,639	$59,310,826	$69,517,264	$73,651,158
Debt Limit	7,338,200	7,629,142	8,184,894	9,593,382	10,163,860
General Obligation	917,855	764,761	711,982	658,947	606,009
Less: Amount set aside for repayment of bonds	(36,226)	(38,913)	(39,984)	(37,322)	(36,238)
Total Net Debt applicable to Debt Limit (1)	881,629	725,848	671,998	621,625	569,771
Legal debt margin	$6,456,571	$6,903,294	$7,512,896	$8,971,758	$9,594,089
Total net debt applicable to the limit as a percentage of Debt Limit	12.01%	9.51%	8.21%	6.48%	5.61%

(1) Pursuant to Section 15 of the Debt Reform Act, this table does not reflect Alternate Bonds because such bonds do not count against the debt limit unless the tax levy supporting them is extended for collection.

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Board's Interest Rate Swap Agreements

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

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

Series	Counterparty	Rating of Counterparty (Moody's/ Standard & Poor's) (1)	Effective Date	Notional Amount	Termination Date	Payable Swap Rate	Variable Receivable Swap Rate
2000C	Royal Bank of Canada	Aaa/AA-	3/1/2007	$61,100,000	3/1/2032	3.823%	70% of LIBOR
2004C	Royal Bank of Canada	Aaa/AA-	3/1/2007	$48,910,000	3/1/2035	3.825%	70% of LIBOR
2005A	Loop Financial Products I LLC (2)	Aa1/A+	11/1/2005	$116,151,000	12/1/2031	BMA Index	70% of LIBOR + 52.4 bp
	Merrill Lynch Capital Services, Inc	A2/A	11/1/2005	$77,434,000	12/1/2031	BMA Index	80.76% Straight Ratio
2005D-2	Loop Financial Products I LLC (2)	Aa1/A+	12/8/2005	$157,055,000	3/1/2036	3.6617%	70% of LIBOR
2008A	Royal Bank of Canada	Aaa/AA-	5/13/2008	$162,785,000	12/1/2028	5.25%	70% of LIBOR + 28 bp
	Bank of America NA	Aa3/A+	5/13/2008	$100,000,000	12/2/2030	5.25%	70% of LIBOR + 28 bp
2008B	Lehman Brothers Special Financing Inc (3)	NR	5/13/2008	$95,350,000	3/1/2034	3.771%	70% of LIBOR
	Goldman Sachs Capital Markets LP	A1/A	5/13/2008	$90,000,000	3/1/2034	3.771%	70% of LIBOR
2009A	Loop Financial Products I LLC (2)	Aa1/A+	3/10/2009	$130,000,000	3/1/2026	3.6617%	70% of LIBOR
2009B	Royal Bank of Canada	Aaa/AA-	6/25/2009	$75,410,000	3/1/2035	3.825%	70% of LIBOR

(1) As of August 24, 2009.

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

(3) See **Appendix A** – "**Audited Financial Statements for Fiscal Year 2008**" – Note 17 – "Subsequent Events – Unlimited Tax General Obligation Bonds (Series 1996, 1999A, 2008B)" for an explanation of the status of the counterparty.

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** – "**Audited Financial Statements for Fiscal Year 2008**" – 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 (the "**Funded Ratio**") to equal 90% by fiscal year 2045. As of June 30, 2008, 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 79.7%.

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 contributed $131.5 million to the Pension Fund in fiscal year 2008 and $188.2 million in fiscal year 2009, and the Board expects to contribute $317 million to the Pension Fund by the end of fiscal year 2010. For further information see "**BOARD OF EDUCATION OF THE CITY OF CHICAGO --Overview of Board's Fiscal Year 2010 Budget and Recent Financial Information Concerning the Board.**"

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 70% 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. The Board adopted such standards beginning with 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, 2008 has been estimated to be $2,022,007,643 and $150,033,000 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 $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 13-member board, consisting of City and suburban members appointed by elected officials in the six-county RTA region. The RTA is primarily funded by taxes imposed by the RTA on retail sales in the six-county area, and an amount from the State equal to one-fourth of the sales taxes collected in the region by the State. The RTA is also authorized to impose, but does not presently impose, taxes on automobile rentals, motor fuel and off-street parking facilities. By law, motor fuel and off-street parking taxes may not be imposed concurrently with sales taxes.

The Metropolitan Pier and Exposition Authority (the "**MPEA**") is a municipal corporation which owns and operates the McCormick Place convention and exposition facilities and Navy Pier. MPEA has previously issued revenue bonds to finance its projects. MPEA is governed by a 16-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

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 outstanding bonds issued by the Authority occurred on June 1, 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 was extended until December 31, 2010, but will become inoperable if the Authority ceases to exist prior to that date (see preceding paragraph).

Debt Obligations. Since 1980, the Authority 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. As of the date of this Official Statement, there are no Authority bonds outstanding.

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 2007. The suburbs in the western and southern portions of the County were reassessed in tax year 2008.

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

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

The Assessor has established procedures enabling taxpayers to contest their tentative Assessed Valuations. Once the Assessor certifies final Assessed Valuations, a taxpayer can seek review of its assessment by 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.

Generally, Board of Review certified assessments are available by June 1 for any given tax year. However, recent delays including a higher percentage of appeals filed before the Board of Review have delayed the certification of assessments to July 30 for the past two years. The Board of Review certified assessments do not account for any further appeals filed before the "PTAB" (hereinafter defined) or the "Circuit Court" (hereinafter defined), of any Certificates of Error that may be issued for such tax year.

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, 2007, see "**– Property Tax Information – Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1998-2007.**"

Exemptions. The Illinois Constitution allows homestead exemptions for residential property. Pursuant to the Illinois Property Tax Code, property must be occupied by the owner as a principal residence on January 1 of the tax year for which the exemption will be claimed. The annual general homestead exemption provides for the reduction of the Equalized Assessed Valuation ("**EAV**") of certain property owned and used exclusively for residential purposes by the amount of the increase over the 1977 EAV, up to a maximum reduction of $6,000. There is an additional homestead exemption for senior citizens (individuals at least 65 years of age), for whom the Assessor is authorized to reduce the EAV by $4,000. An additional exemption is available for homes owned and exclusively used for residential purposes by disabled veterans or their spouses, for whom the Assessor is authorized to annually exempt up to $70,000 of the Assessed Valuation. Another additional exemption authorizing the Assessor to reduce the EAV by $5,000 is available for homes owned and exclusively used for residential purposes for veterans who return from an armed conflict involving the armed forces. Although the exemption is for a single tax year, a qualifying veteran can receive the exemption for another tax year in which he or she returns from active duty. The Disabled Persons' Homeowner Exemption provides an annual $2,000 reduction in the EAV of a qualifying residential property. However, the property cannot receive this exemption and the exemption available for homes owned by disabled veterans or their spouses. An exemption is available for homestead improvements by an owner of a single family residence of up to $75,000 of the increase in the fair cash value of a home due to certain home improvements to an existing structure for at least four years from the date the improvement is completed and occupied. Senior citizens whose household income is $55,000 or less, and who are either the owner of record or have a legal or equitable interest in the property, qualify to have the EAV of their property frozen in the year in which they first qualify for the so-called "freeze" and each year thereafter in which the qualifying criteria are maintained.

On July 12, 2004, the Property Tax Code was amended to permit each county in the State, by enacting an ordinance within six (6) 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.

This is known as the Alternative Homestead Exemption. 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 EAV and the property's "adjusted homestead value." The County adopted an ordinance electing to be governed by this law. The exemption provided for under this law cannot exceed $20,000 in any taxable year. 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.

In 2007, the Alternative Homestead Exemption law enacted in 2004 was allowed to sunset. Later in 2007, Public Act 95-0644 was enacted, which extends the Alternative Homestead Exemption law for an additional three years, subject to certain provisions and adjustments to the prior law. Pursuant to Public Act 95-0644, the maximum exemption will be $33,000 in EAV in the first year, decreasing to $26,000 in the second year, and $20,000 in EAV in the third or final year. In the County, this increased exemption will be "phased in" over a three-year period: 2006 through 2008 in the City, 2007 through 2009 in the northern and northwestern portions of the County, and 2008 through 2010 in the western and southern portions of the County. 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.

Aside from homestead exemptions, upon application, review and approval by the Board of Review, or upon an appeal to the Illinois Department of Revenue, there are exemptions generally available for properties of religious, charitable, and educational organizations, as well as units of federal, state and local governments.

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, long-time, 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. Pursuant to Public Act 95-0644, the Long-Time Occupant Homestead Exemption provides property tax relief from dramatic rises in property taxes directly or indirectly attributable to gentrification in the form of an exemption. This is generally applicable to homeowners; (i) 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), (ii) whose annual household income for the year of the homeowner's triennial assessment does not exceed $100,000 This exemption limits the EAV increases to a specific annual percentage increase that is based on the total household income of $100,000 or less. Qualifying homestead properties with a total household income of $75,000 or less is limited to a 7% annual percentage increase in EAV, and qualifying homestead properties with a total household income of more than $75,000 up to $100,000 is limited to a 10% annual percentage increase in EAV. The minimum limit is the same amount calculated for the general homestead exemption with no maximum limit amount for the exemption. However, properties cannot receive both the Long-Time Occupant Homestead Exemption and the general homestead exemption, Alternative General Homestead Exemption or Senior Citizens Assessment Freeze Homestead Exemption.

Tax Levy. There are over 800 units of local government (the "**Units**") located in whole or in part in the County that have taxing power. The major Units having taxing power over property within the

County include the Board, the City, the Park District, the Authority, the Community College District, the Water Reclamation District, the County and the Forest Preserve District.

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

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

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

Collection. Property taxes are collected by the County Collector, who remits to each Unit its share of the collections. Taxes levied in one year become payable during the following year in two installments, the first always due on March 1 and the second due on the later of August 1 or 30 days after the mailing of the tax bills. The first installment is an estimated bill equal to one-half of the prior year's tax bill. The second installment is for the balance of the current year's tax bill, and is based on the current levy, assessed value and Equalization Factor and applicable tax rates, and reflects any changes from the prior year in those factors. Over the last 10 years, the second installment "penalty date" (that is, the date after which interest is due on unpaid amounts) has not been later than November 16; and the date for tax year 2007 was November 3, 2008. 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, except that a different penalty rate may apply depending on the length of the redemption period.

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

Property Tax Extension Limitation Law; Issuance of Alternate Bonds

The 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. On August 27, 2008, a hearing pursuant to the Bond Issue Notification Act was held in connection with bonds to be issued pursuant to the 2008 Authorization, including the Bonds.

Property Tax Information

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

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Assessed, Equalized Assessed and Estimated Value of All Taxable Property 1998-2007

(Dollars in Thousands)

Tax Year Levy[9]	Assessed Values[1] Class 2[5]	Class 3[6]	Class 5[7]	Other[8]	Total	State Equalization Factor[2]	Total Equalized Assessed Value[3]	Total Estimated Fair Cash Value[4]	Total Equalized Assessed Value as a Percentage of Total Estimated Fair Cash Value
2007	$18,937,256	$1,768,927	$12,239,086	$678,196	$33,623,465	2.8439	$73,645,316	$ 320,503,503	22.98%
2006	18,521,873	2,006,898	12,157,199	688,818	33,374,788	2.7076	69,511,192	329,770,733	21.08
2005	13,420,538	1,842,613	10,502,698	462,099	26,227,948	2.7320	59,304,530	283,137,884	20.95
2004	12,998,216	1,883,047	10,401,428	465,464	25,748,155	2.5757	55,283,639	262,080,627	21.09
2003	12,677,199	2,233,572	10,303,731	487,680	25,702,182	2.4598	53,168,632	263,482,258	20.18
2002	9,221,622	1,865,646	8,878,142	349,371	20,314,781	2.4689	45,330,892	189,362,475	23.94
2001	8,973,796	1,923,257	8,757,366	354,036	20,008,455	2.3098	41,981,912	164,572,708	25.51
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

(1) Source: Cook County Assessor's Office. The Cook County Assessor's Office has not yet certified the assessed value for 2008.
(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.

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

Levy Year[2]	Extension	First Year Collections Amount	First Year Collections Percent	Cumulative Collections[1] Amount	Cumulative Collections[1] Percent
2008	$2,070,834	$ 920,034	44.4%	$ 920,034	44.4%
2007	1,981,221	1,809,396	91.3%	1,833,935	92.6%
2006	1,874,750	1,644,937	87.7%	1,839,114	98.1%
2005	1,794,063	1,728,522	96.3%	1,756,196	97.9%
2004	1,716,111	1,565,982	91.3%	1,688,037	98.4%
2003	1,670,337	1,500,238	89.8%	1,626,088	97.4%
2002	1,614,473	1,548,369	95.9%	1,581,600	98.0%
2001	1,571,962	1,519,630	96.7%	1,548,438	98.5%
2000	1,503,488	1,446,847	96.2%	1,467,959	97.6%
1999	1,451,206	1,408,124	97.0%	1,424,342	98.1%

Source: Board of Education of the City of Chicago

(1) Tax receivables is net of Estimated Allowance for Uncollectible taxes (the "**Allowance**"). The Allowance for the calendar year 2008 levy is 3.5% of the levy.

(2) The 2008 tax extension year reflects collections through August 17, 2009.

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Tax Rates by Board Fund:										
Educational	$3.059	$3.000	$2.756	$2.712	$2.670	$2.258	$2.301	$2.142	$2.078	$2.376
School District Medicare [1]	0.044	0.048	0.047	0.031	0.017	0.000	0.000	0.000	0.000	0.000
Workers' and Unemployment Compensation Tort Immunity	0.192	0.206	0.141	0.191	0.150	0.219	0.131	0.228	0.021	0.191
PBC Operation and Maintenance [2]	0.722	0.701	0.640	0.685	0.609	0.565	0.576	0.565	0.521	0.000
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	0.155	0.149	0.130	0.125	0.116	0.100	0.096	0.091	0.077	0.160
Board Subtotal	$4.172	$4.104	$3.714	$3.744	$3.562	$3.142	$3.104	$3.026	$2.697	$2.727
Other Major Government Units:										
City of Chicago	$1.998	$1.860	$1.660	$1.637	$1.591	$1.380	$1.302	$1.243	$1.062	$1.044
Community College District	0.354	0.347	0.311	0.307	0.280	0.246	0.242	0.234	0.205	0.159
School Finance Authority	0.268	0.255	0.223	0.223	0.177	0.151	0.177	0.127	0.118	0.091
Chicago Park District	0.653	0.627	0.572	0.567	0.545	0.464	0.455	0.443	0.379	0.355
Water Reclamation District	0.444	0.419	0.415	0.401	0.371	0.361	0.347	0.315	0.284	0.263
Cook County	0.911	0.854	0.824	0.746	0.690	0.630	0.593	0.533	0.500	0.466
Cook County Forest Preserve	0.072	0.070	0.069	0.067	0.061	0.059	0.060	0.060	0.057	0.053
Other Unit Subtotal	$4.700	$4.432	$4.074	$3.948	$3.715	$3.291	$3.176	$2.955	$2.605	$2.431
TOTAL	$8.872	$8.536	$7.788	$7.692	$7.277	$6.433	$6.280	$5.981	$5.302	$5.158

Source: Cook County Clerk's Office – tax rates by levy year. Tax rates for 2008 are not yet available.

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

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

TAX MATTERS

The Series 2009E Bonds

Interest on the Series 2009E Bonds is not excluded from the gross income of the owners thereof for federal income tax purposes. Owners of the Series 2009E Bonds should consult their own tax advisors with respect to the inclusion of interest on the Series 2009E Bonds in gross income for federal income tax purposes.

In February 2009, as part of the American Recovery and Reinvestment Act of 2009 (the "**Act**"), Congress added provisions to the Code, which permit state or local governments to obtain certain tax advantages when issuing certain taxable obligations, referred to as "Build America Bonds." Build America Bonds must satisfy certain requirements, including that the interest thereon would be, but for the issuer's election to treat the bonds as Build America Bonds, excludible from gross income under Section 103 of the Code. The Board has made an irrevocable election to treat the Series 2009E Bonds as Build America Bonds that are "qualified bonds" within the meaning of Section 54AA(g) of the Code. As a result of this election, interest on the Series 2009E Bonds is not excluded from the gross income of the owners thereof for federal income tax purposes and the owners of the Series 2009E Bonds will not be entitled to any tax credits as a result of either the ownership of the Series 2009E Bonds or receipt of any interest payments on the Series 2009E Bonds.

The Code contains a number of provisions relating to the taxation of securities such as the Series 2009E Bonds (including but not limited to the tax treatment of and accounting for interest, premium, original issue discount and market discount thereon, gain from the sale, exchange or other disposition thereof and withholding and backup withholding tax on income therefrom) that may affect the taxation of certain owners, depending on their particular tax situations. Owners of the Series 2009E Bonds should consult their own tax advisors as to the particular federal income tax consequences of their ownership of the Series 2009E Bonds.

The Series 2009F Bonds

In the opinion of Mayer Brown LLP, Bond Counsel, under existing law and assuming compliance with certain covenants made by the Board to satisfy pertinent requirements of the Code, interest on the Series 2009F Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Failure to comply with certain of such Board covenants could cause interest on the Series 2009F Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2009F Bonds.

In rendering the foregoing opinions, Bond Counsel will rely on, and will assume the accuracy of, certain representations and certifications and compliance with certain covenants of the Board and the Trustee contained in various documents included in the transcript of proceedings, which are intended to evidence and assure that the Series 2009F Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of such certifications and representations and will not monitor compliance with such covenants.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and remain excluded from gross income for federal income tax purposes. Some of these require continued compliance after the issuance of the Series 2009F Bonds in order for the interest to be and continue to be so excluded from the date of issuance. Noncompliance with such requirements could cause the interest on the Series 2009F Bonds to be included in gross income for federal income tax purposes, in some cases, effective from the date such Series 2009F Bonds are initially issued. The Board has covenanted in the Tax Agreement to not take any action or knowingly permit any action on its part to be taken which would cause the interest on the Series 2009F Bonds to be included in the gross income of the owners of the Series 2009F Bonds for federal income tax purposes.

Under the Code, interest on the Series 2009F Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code, and interest on the Series 2009F Bonds could be subject to the tax imposed by Section 1375 of the Code on excess net passive income of certain S corporations. Under the Code, the receipt of interest excluded from gross income for federal income tax purposes can have certain collateral federal income tax consequences, adversely affecting items of income, deductions or credits for certain taxpayers, including financial institutions, property and casualty insurance companies, recipients of Social Security and Railroad Retirement benefits, individuals otherwise eligible for the earned income credit and taxpayers who are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2009F Bonds. Prospective purchasers of the Series 2009F Bonds should consult their own tax advisors on the application of such collateral consequences.

An investor may purchase a Series 2009F Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “bond premium” and must be amortized by an investor on a constant yield basis over the remaining term of the Series 2009F Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor’s basis in the Series 2009F Bond. Investors who purchase a Series 2009F Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Series 2009F Bond’s basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Series 2009F Bond.

Further, from time to time, legislative proposals are pending in Congress which, if enacted, would alter or amend one or more of the federal tax consequences referred to above in certain respects or would adversely affect the market value of the Series 2009F Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that such proposal would not apply to obligations (such as the Series 2009F Bonds) issued prior to enactment of such proposal. Prospective purchasers of the Series 2009F Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation.

The Bonds

Interest on the Bonds is not exempt from present State of Illinois income taxes. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the application of any such state and local taxes.

The discussion of tax matters in this Official Statement applies only in the case of purchasers of the Bonds at their original issuance and at the respective prices indicated on the cover page. It does not address any other tax consequences such as, among others, the consequences of the existence of any market discount to subsequent purchasers of the Bonds.

Notice Pursuant to IRS Circular 230

The discussion above regarding the Series 2009E Bonds is not intended or written by the Board or Bond Counsel to be used, and cannot be used by any person, for the purpose of avoiding tax penalties that might be imposed under U.S. tax laws. This discussion is provided to support an offering of the Series 2009E Bonds, and accordingly is written in support of the promotion or marketing of the Series 2009E Bonds. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences of an investment in the Series 2009E Bonds.

RATINGS

The Bonds have been assigned the underlying ratings of "AA-" by Standard & Poor's, a Division of The McGraw Hill Companies, Inc. ("**Standard & Poor's**"), "A+" by Fitch Ratings ("**Fitch**") and "A1" by Moody's Investor Service ("**Moody's**") based on the credit of the Board.

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

INDEPENDENT AUDITORS

The financial statements of the Board of Education of the City of Chicago as of and for the year ended June 30, 2008, included in **APPENDIX A** to this Official Statement have been audited by McGladrey & Pullen, LLP, independent auditors, as stated in their report appearing herein.

FINANCIAL ADVISOR

The Board has engaged A.C. Advisory, Inc. 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

Merrill Lynch & Co., as Representative of the Underwriters identified on the cover page of this Official Statement (the "**Underwriters**"), has agreed to purchase the Bonds at an aggregate purchase price of $546,672,987.94 (representing an aggregate principal amount of $547,335,000.00 plus $2,221,004.20 of net original issue premium and less $2,883,016.26 of Underwriter's discount). The Bonds will be offered to the public at the prices as set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering a Series of Bonds to the public.

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

CERTAIN LEGAL MATTERS

Issuance of the Bonds is subject to the issuance of the approving legal opinion of Mayer Brown LLP, Chicago, Illinois, as 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 A. Rocks, the Board's General Counsel, and by its special counsel, Hoogendoorn and Talbot LLP, Chicago, Illinois, and for the Underwriters by their counsel, Thompson Coburn LLP, Chicago, Illinois.

LITIGATION

General

The Board is involved in numerous lawsuits that arise out of the ordinary course of operating the school system, including, but not limited to, the lawsuits described in this 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.

Specific Matters

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

Ryan Murray v. Board of Education of the City, et al. is a lawsuit filed as the result of an injury sustained in an accident involving the use of a mini-trampoline during an extracurricular program operated by Chicago Youth Centers ("**CYC**"). A suit was originally filed in 1993, voluntarily dismissed in 1997 and refiled in 1998. In 2002, the Board and CYC each won summary judgment in the trial court, based on statutory immunities, the plaintiff appealed, and in 2004, the appellate court affirmed the judgment. The Illinois Supreme Court allowed plaintiff's petition for leave to appeal in 2005 and affirmed the appellate court's judgment. In 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. It is probable that damages in this case will exceed $1,000,000. The issue of liability is in dispute because CYC supervised the program and the use of the equipment and because Board personnel were not directly involved in the program. There is also a related insurance coverage issue in that one of the Board's excess insurance providers claims it did not receive timely notice of the claim and the Board is at risk of having to pay 20% of the excess liability costs (over the $3,000,000 deductible).

Chicago Teacher's Union Grievance. The Chicago Teacher's Union (the "**CTU**") has filed a grievance against the Board, No. 2347/09-03-180, in which the CTU claims that 150 teachers were not provided the appropriate benefits of the Reassigned Teacher Pool under the union contract. If CTU is successful, the Board liability could be a significant amount, however, the Board is unable to assess the veracity of the grievance as of the date of the Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

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

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

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

Annual Financial Information Disclosure

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

"**Annual Financial Information**" means historical information generally consistent with information of the type set forth in this Official Statement under the captions "BOARD OF EDUCATION OF THE CITY OF CHICAGO — School System," "— Recent Financial Information Concerning the Board," "— General Operating Fund Balances," "— Outstanding Debt Obligations," "—Legal Debt Margin Information of the Board," "— Board's Interest Rate Swap Agreements," "— Employee Pension Obligations" and "— Other Post-Employment Benefits."

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

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

Events Notification; Material Events Disclosure

The Board covenants in the Undertaking for the Bonds that it will disseminate to the MSRB 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 the Undertaking to give notice in a timely manner to the MSRB of any failure to provide disclosure of the Annual Financial Information and Audited Financial Statements when the same are due under the Undertaking.

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

Amendment; Waiver

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

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

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

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

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

Termination of Undertaking

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

Dissemination Agent

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

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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/ Christina Herzog
Acting Chief Financial Officer

APPENDIX A

Audited Financial Statements for Fiscal Year 2008

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McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Chicago Public Schools (the Board of Education of the City of Chicago, the "CPS," a body politic and corporate of the State of Illinois), as of and for the year ended June 30, 2008, which collectively comprise the CPS' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the CPS' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2008, and the respective changes in financial position and the respective budgetary comparison for the General Operating Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 16 to the financial statements, CPS changed its method of accounting for revenue during the year ended June 30, 2008.

Management's discussion and analysis on pages A-2 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 10, 2008

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, 2008. 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 $1.73 billion in fiscal year 2008, an increase of $148.3 million. In the General Operating Fund, unreserved funds increased from $246 million in fiscal year 2007 as restated to $432 million in 2008, an increase of $186 million.

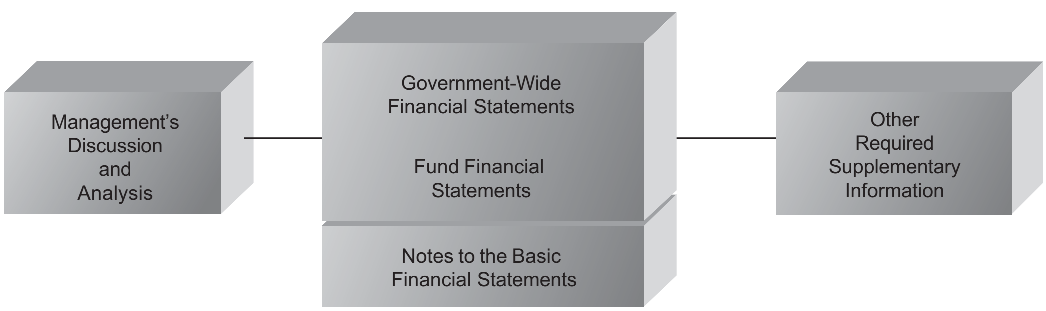
Total General Operating Fund actual revenues less expenditures exceeded budgeted resources less final appropriations by $300 million.

As a result of the collapse of the variable Auction Rate market in February 2008, CPS issued $968.4 million in debt offerings in the current fiscal year to restructure its auction rate debt. CPS also terminated six swap agreements in the notional amount of $965 million, which resulted in a $20.5 million termination payment to the counterparties.

During the fiscal year, CPS issued $238.7 million in debt offerings to further fund the Capital Improvement Program.

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			
	2008	2007	Difference	% Change
Current assets	$3,989	$3,848	$ 141	3.7%
Capital assets, net	4,683	4,488	195	4.3%
Total Assets	$8,672	$8,336	$ 336	4.0%
Current liabilities	$ 924	$ 934	$ (10)	−1.1%
Long-term liabilities	7,849	7,288	561	7.7%
Total Liabilities	$8,773	$8,222	$ 551	6.7%
Net Assets:				
Invested in capital assets net of related debt	$ 133	$ 267	$(134)	−50.2%
Restricted for:				
Debt service	446	414	32	7.7%
Specific purposes	105	131	(26)	−19.8%
Unrestricted	(785)	(698)	(87)	12.5%
Total Net Assets	$ (101)	$ 114	$(215)	−188.6%

- **Total assets** of $8.7 billion increased due to 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 $195 million or 4.3% over the prior fiscal year due to the continued progress of the Capital Improvement Program.
- **Long-term debt** increased $208 million, or 4.3%. The total long-term portion of debt outstanding and capitalized leases was $4.82 billion in fiscal year 2007 and $5.04 billion in fiscal year 2008. In fiscal year 2008, CPS issued $238.7 million in Unlimited Tax General Obligation Bonds to fund the Capital Improvement Program.
- **Accrued pension** increased to $1.86 billion in fiscal year 2008 from $1.75 billion in fiscal year 2007, an increase of $105.9 million, or 6.1%. 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 $579.8 million in fiscal year 2008 from $425.1 million in fiscal year 2007, an increase of $154.7 million, or 36.4%. 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 the current portion increased to $441.3 million in fiscal year 2008 from $343.9 million in fiscal year 2007, an increase of $97.3 million, or 28.3%. The year-end balance reflects increases in accrued sick pay, vacation pay and workers' compensation of $54.1 million, $34.5 million and $11.4 million respectively, and a decrease in tort liabilities of $2.7 million.
- **CPS' net assets** decreased $214.5 million to ($101) million. Of this amount, $133 million represents CPS' investment in capital assets net of depreciation and related debt. Restricted net assets of $551 million are reported separately to present legal constraints from debt covenants and enabling legislation. The ($785) 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, 2008.

The following table presents the changes in net assets from fiscal year 2007 to 2008:

Changes in Net Assets
(Millions of dollars)

	Governmental Activities			
	2008	**2007**	**Difference**	**% Change**
Revenues:				
Program Revenues:				
Charges for services	$ 12	$ 13	$ (1)	−7.7%
Operating grants and contributions	946	863	83	9.6%
Capital grants and contributions	129	97	32	33.0%
Total Program Revenues	$1,087	$ 973	$ 114	11.7%
General Revenues:				
Property taxes	$1,862	$1,813	$ 49	2.7%
Replacement taxes	215	201	14	7.0%
State aid	1,756	1,652	104	6.3%
Interest and investment earnings	86	154	(68)	−44.2%
Gain on sale of fixed assets	4	23	(19)	−82.6%
Miscellaneous	45	163	(118)	−72.4%
Total General Revenues	$3,968	$4,006	$ (38)	−0.9%
Total Revenues	$5,055	$4,979	$ 76	1.5%
Expenses:				
Instruction	$3,138	$3,097	$ 41	1.3%
Support services:				
Pupil support services	385	361	24	6.6%
Administrative support services	206	179	27	15.1%
Facilities support services	520	461	59	12.8%
Instructional support services	497	481	16	3.3%
Food services	193	186	7	3.8%
Community services	47	45	2	4.4%
Interest expense	274	220	54	24.5%
Other	10	8	2	25.0%
Total Expenses	$5,270	$5,038	$ 232	4.6%
Change in Net Assets	$ (215)	$ (59)	$(156)	264.4%
Beginning Net Assets	114	173	(59)	−34.1%
Ending Net Assets	$ (101)	$ 114	$(215)	−188.6%

Net Assets decreased to $(101) million in fiscal year 2008 from $114 million in fiscal year 2007, a decrease of $215 million or 188.6%. Even though total revenues increased by $114 million from fiscal year 2007, our expenditures exceeded our revenues in fiscal year 2008, primarily due to high pension and postemployment costs, which were $105.9 million and $154.7 million, respectively.

Capital Assets

At June 30, 2008, the CPS had $4.7 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 $195.6 million or 4.4% over the prior fiscal year ($000's).

	2008	2007	Difference	% Change
Land	$ 261,337	$ 248,713	$ 12,624	5.1%
Buildings	6,251,840	6,051,231	200,609	3.3%
Construction in progress	467,100	354,531	112,569	31.8%
Equipment	164,057	149,045	15,012	10.1%
Total Capital Assets	$ 7,144,334	$ 6,803,520	$ 340,814	5.0%
Less: Accumulated depreciation	(2,460,786)	(2,315,633)	(145,153)	6.3%
Total Capital Assets, net	$ 4,683,548	$ 4,487,887	$ 195,661	4.4%

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 August 2005, CPS sold an option to Bank of America N.A. under which CPS would enter into an interest rate swap associated with $100,000,000 of bonds refunding the Series 1997A bonds upon exercise of option in July 2007 (effective December 2007). In November 2006, CPS also sold an option to Royal Bank of Canada under which CPS would have to enter into an interest rate swap associated with $162,785,000 of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). The intention of entering into the swaps were to effectively economically refund $262,785,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing upfront payments of $18,345,000 and $24,925,000 to be used for costs of issuance and debt service requirements in fiscal year 2006 and 2007.

In July 2007, the counterparties exercised their swaption options and in September 2007, CPS issued $262,785,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007A) and in December 2007, CPS entered into two interest rate swaps associated with the issuance of the Series 2007A auction rate bonds. The proceeds from these bonds were used to refund a portion of Series 1997A bonds. As a result of the issuance, net proceeds along with debt service funds on hand and proceeds related to CPS' swaption agreement totaling $272,428,076 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase $262,785,000 of the 1997A bonds in full on December 1, 2007, and the bonds are considered fully refunded.

In September 2007, CPS issued $204,635,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007BC) at a premium of $10,308,755. The proceeds from these bonds were used to refund a portion of Series 1997 and Series 1997A bonds and to pay costs of issuance of the bonds. As a result of the issuance, net proceeds of $212,793,437 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase $199,225,000 of the Series 1997A bonds and $6,700,000 of the Series 1997 on December 1, 2007, and the bonds are considered fully refunded

In December 2007, CPS issued $238,720,000 in Unlimited Tax General 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. As a result of the issuance, CPS recorded net proceeds of $250,000,000 in the Capital Improvement Fund.

As a result of the collapse of the variable Auction Rate market in February 2008, CPS issued the following refunding bonds to restructure its auction rate debt:

In May 2008, CPS issued $262,785,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008A). The proceeds from these bonds were used to refund the Series 2007A bonds. CPS contributed $9.5 million to pay for costs of issuance and fund debt service. As a result of the issuance, $262,976,142 was deposited in a trust with an escrow agent to purchase the Series 2007A bonds upon the next remarketing. On May 16, 2008, the bonds were repurchased in full and are considered fully refunded.

In May 2008, CPS issued $240,975,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008B). The proceeds from these bonds were used to refund the Series 2003D bonds. CPS contributed $0.9 million to pay for costs of issuance and fund debt service. As a result of the issuance, $241,761,730 was deposited in a trust with an escrow agent to purchase the Series 2003D bonds upon the next remarketing. On May 30, 2008, the bonds were repurchased in full and are considered fully refunded.

In May 2008, CPS issued $464,655,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2008C) at a premium of $17,082,455. The proceeds from these bonds were used to refund the Series 2003B and Series 2004B bonds. CPS contributed $4.3 million to the refunded escrow agent and $2.5 million to pay for cost of issuance and fund debt service. As a result of the issuance, $484,122,177 was deposited in a trust with an escrow agent to purchase the Series 2003B bonds and the Series 2004B bonds upon the next remarketing. On May 29, 2008, the bonds were repurchased in full and are considered fully refunded.

As of June 30, 2008, the CPS had $5.12 billion in total debt, including accreted interest, and capitalized lease obligations outstanding versus $4.89 billion last year, an increase of 4.5%. 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, 2008, net of bonds advance refunded or defeased is $66.6 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, 2007, the funded ratio of the Pension Fund was 80.1% and the CPS has recorded an estimated pension liability of $1.86 billion in the accompanying financial statements, as determined under generally accepted accounting principles. Because the funded ratio was below 90%, the CPS was required to make a $131.5 million contribution to the Pension Fund under the statutory requirements during fiscal year 2008.

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 2008, as in previous fiscal years, the CPS paid a portion, 7%, or $35.7 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, 2008 as compared to June 30, 2007. They also depict the amount and percentage increases and decreases in relation to prior year revenues and other financing resources.

During fiscal year 2008, CPS changed its revenue recognition policy for non-exchange transactions such as State aid, Federal aid, and replacement taxes to consider these revenues susceptible to accrual from 90 days to 30 days. The change resulted in a fund balance restatement decreasing the beginning fund balance by $159.5 million. This change is consistent with CPS' current revenue recognition policy for property taxes. For more detailed information please refer to the Note 16 to the basic financial statements.

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

	2008 Amount	2007 Amount (as restated)	2008 Percent Of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Revenues:					
Property taxes	$1,814	$1,768	34.4%	$ 46	2.6%
Replacement taxes	215	201	4.1%	14	7.0%
State aid	1,846	1,680	35.1%	166	9.9%
Federal aid	876	720	16.6%	156	21.7%
Investment income	86	117	1.6%	(31)	−26.5%
Other	181	286	3.4%	(105)	−36.7%
Subtotal	$5,018	$4,772	95.3%	$ 246	5.2%
Other financing sources	248	396	4.7%	(148)	−37.4%
Total	$5,266	$5,168	100.0%	$ 98	1.9%
Expenditures:					
Instruction	$2,575	$2,492	50.3%	$ 83	3.3%
Pupil support services	362	349	7.1%	13	3.7%
General support services	987	914	19.3%	73	8.0%
Food services	182	180	3.6%	2	1.1%
Community services	45	45	0.9%	—	0.0%
Teachers' pension	207	156	4.0%	51	32.7%
Capital outlay	467	346	9.1%	121	35.0%
Debt service	282	342	5.5%	(60)	−17.5%
Other	11	8	0.2%	3	37.5%
Total	$5,118	$4,832	100.0%	$ 286	5.9%
Change in Fund Balance	$ 148	$ 336			

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)

	2008 Amount	2007 Amount (as restated)	2008 Percent of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Property taxes	$1,763	$1,716	38.4%	$ 47	2.7%
Replacement taxes	159	147	3.5%	12	8.2%
State aid	1,692	1,528	36.9%	164	10.7%
Federal aid	833	686	18.1%	147	21.4%
Investment income	41	62	0.9%	(21)	−33.9%
Other	97	96	2.1%	1	1.0%
Subtotal	$4,585	$4,235	99.9%	$350	8.3%
Other financing sources	4	2	0.1%	2	100.0%
Total	$4,589	$4,237	100.0%	$352	8.3%

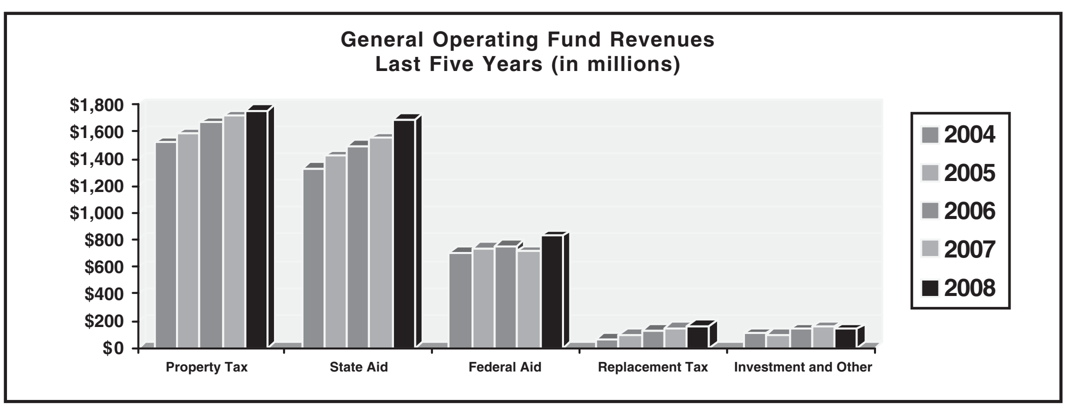
Property taxes increased by $47 million from fiscal year 2007 due to increases in tax levies of 3.4% and new construction.

Personal property replacement taxes increased $12 million from fiscal year 2007, as a result of higher corporate profits.

State aid increased by $164 million due to a $400 per pupil increase in foundation level, up to $5,734 per student.

Federal aid increased $147 million due to increased spending on E-rate maintenance projects and the change in the revenue recognition policy for non-exchange transactions.

Investment income decreased $21 million from fiscal year 2007, due to lower interest rates.

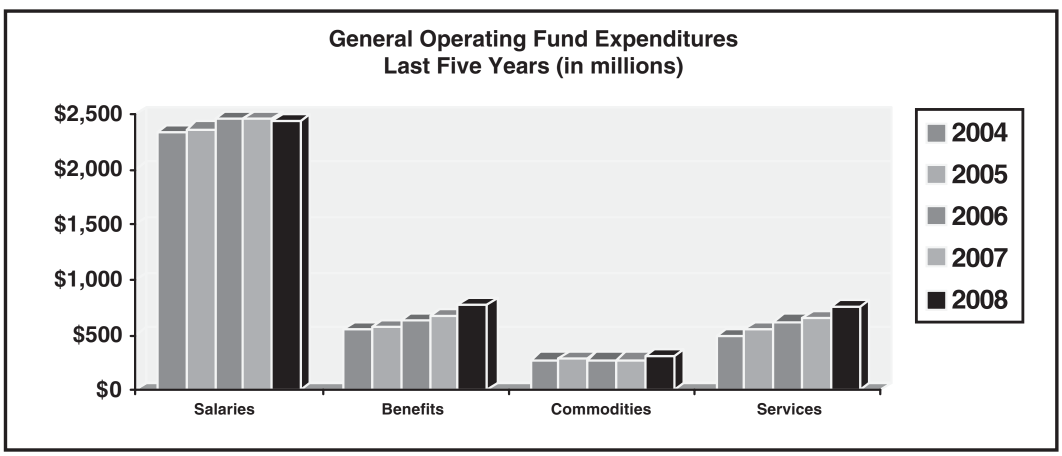


Expenditures:
(Millions of Dollars)

	2008 Amount	2007 Amount (as restated)	2008 Percent Of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Salaries	$2,445	$2,459	55.6%	$ (14)	−0.6%
Benefits	767	675	17.5%	92	13.6%
Services	748	650	17.0%	98	15.1%
Commodities	307	274	7.0%	33	12.0%
Other	128	88	2.9%	40	45.5%
Total	$4,395	$4,146	100.0%	$249	6.0%

Total expenditures increased by $249 million, primarily due to the increase in:

- Salaries decreased by $14 million primarily due to the high number of teachers that retired in June 2007 and were replaced by teachers at lower salaries, an increase of charter schools and declining student enrollment.
- Benefit charges increased by $92 million mainly due to an increase in teacher's and career service pension costs of $74.4 million, hospitalization costs of $9.6 million and an increase in workers' compensation costs of $5.1 million.
- Services increased by $98 million primarily due to an increase in payments to Charter schools of $48 million and an increase in professional services of $38 million.
- Commodities increased by $33 million primarily due to an increase in textbooks of $24 million and an increase in energy costs of $9 million due to rising fuel costs.
- Other expenditures increased by $40 million, because during fiscal year 2008 CPS terminated six swap agreements which resulted in a termination payment made to the counterparties of $20.5 million and also an increase in repairs and equipment of $20 million.



Capital Projects Fund

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

Revenues and Other Financing Sources (Millions of Dollars)

	2008 Amount	2007 Amount (as restated)	2008 Percent Of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
State aid	$ —	$ 18	0.0%	$ (18)	100.0%
Federal aid	43	34	11.0%	9	26.5%
Investment income	26	35	6.7%	(9)	−25.7%
Other	61	37	15.7%	24	64.9%
Subtotal	$130	$124	33.4%	$ 6	4.8%
Other financing sources	259	396	66.6%	(137)	−34.6%
Total	$389	$520	100.0%	$(131)	−25.2%

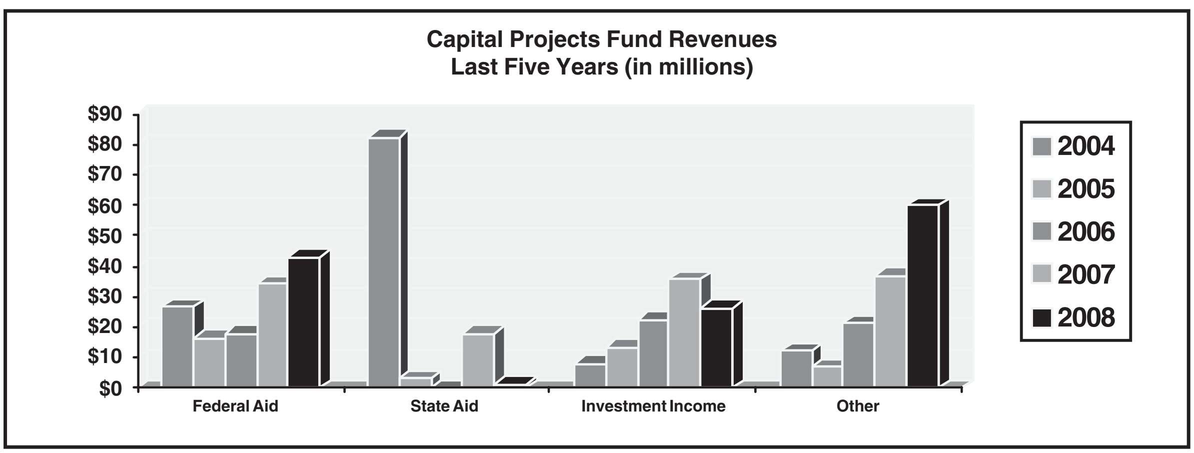
State aid was not allocated to the Capital Projects Fund during fiscal year 2008.

Federal aid increased $9 million due to an increase in E-rate capital projects.

Investment income decreased $9 million from fiscal year 2007, due to lower interest rates.

Other income increased $24 million from fiscal year 2007, due to the fact that the City of Chicago continues to provide financial resources to CPS as part of the Modern Schools across Chicago Program, these funds are used to finance the construction and improvement of elementary and high schools that are part of CPS' school system.

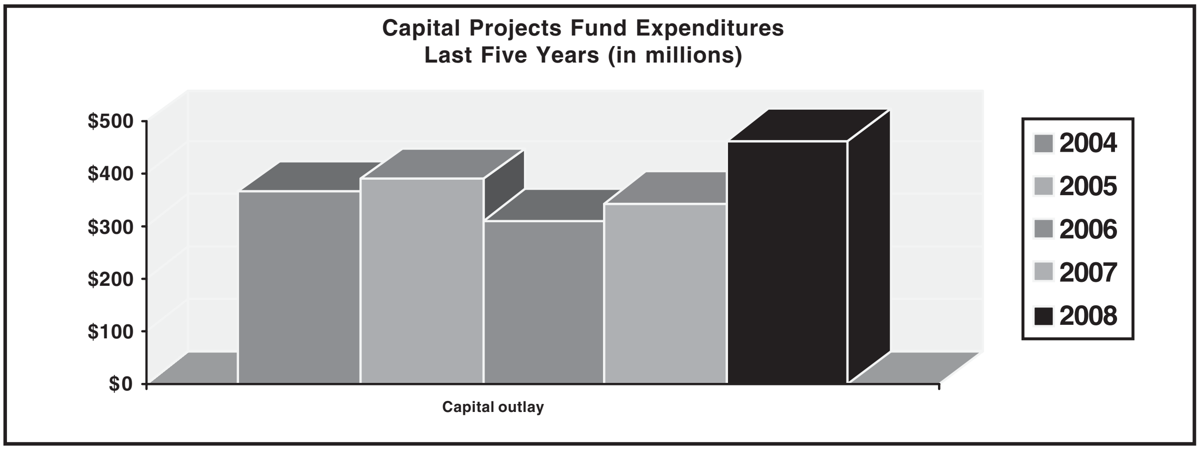
Other financing sources decreased $137 million from fiscal year 2007, because CPS issued only $238.7 million in debt offerings to fund the Capital Improvement Program in the current year which is significantly lower than the $355.8 million issued during fiscal year 2007.



Expenditures:
(Millions of Dollars)

	2008 Amount	2007 Amount (as restated)	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Capital Outlay	$463	$345	$118	34.2%

Capital Outlay increased by $118 million due to the continuation of the Capital Improvement Program.



Debt Service Fund

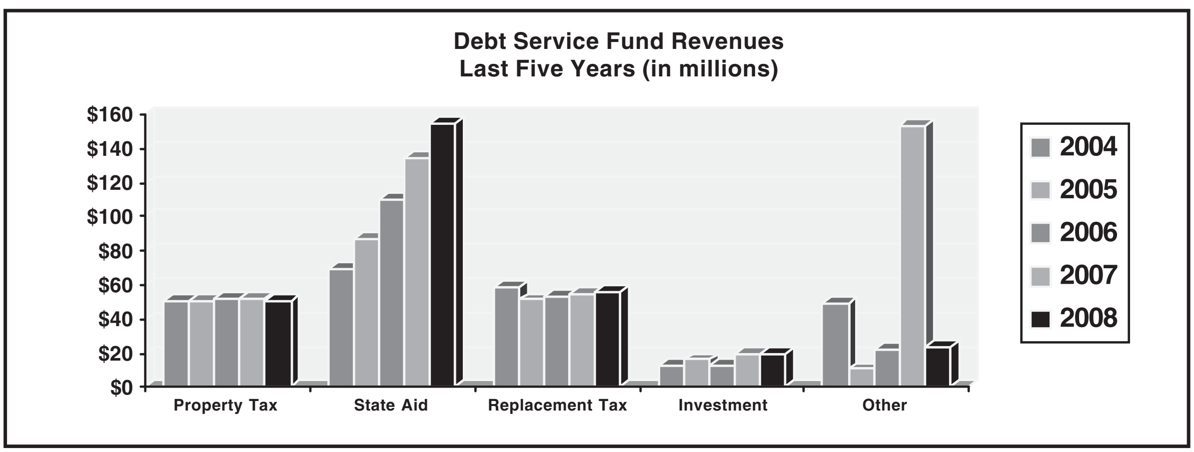
The debt service fund reflects the property tax revenues and other revenues that are used for the payment of principal and interest and redemption for general obligation bonds and for lease payment to the Public Building Commission.

Revenues and Other Financing Sources (Millions of Dollars)

	2008 Amount	2007 Amount	2008 Percent Of Total	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Property taxes	$ 50	$ 51	17.4%	$ (1)	−2.0%
Replacement taxes	56	54	19.4%	2	3.7%
State aid	154	134	53.5%	20	14.9%
Investment income	19	19	6.6%	—	0.0%
Other	24	154	8.3%	(130)	−84.4%
Subtotal	$303	$412	105.2%	$(109)	−26.5%
Other financing sources (uses)	(15)	(2)	−5.2%	(13)	650.0%
Total	$288	$410	100.0%	$(122)	−29.8%

State aid increased by $20 million to provide debt service for new general obligation bonds.

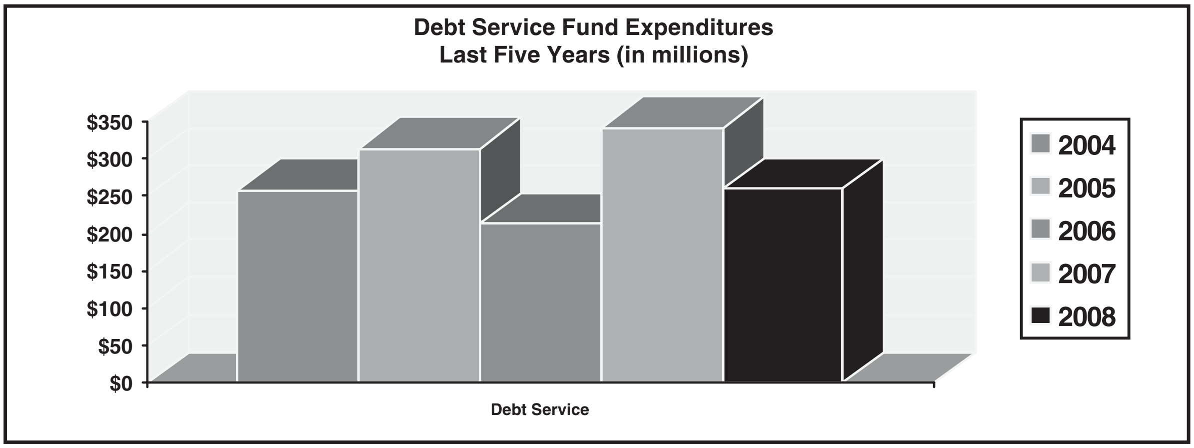
Other income decreased $130 million from fiscal year 2007, because the prior year balance included proceeds from the City of Chicago's general obligation bonds Series A-K (Modern School Across Chicago); these proceeds were used to defease CPS' general obligation bonds, Series 2004F, Series 2004H and Series 2005C.



Expenditures:
(Millions of Dollars)

	2008 Amount	2007 Amount (as restated)	Increase (Decrease) From 2007	Percent Increase (Decrease) from 2007
Debt service	$260	$341	$(81)	−23.8%

Debt Service decreased by $81 million because the 2007 balance included the defeasance of CPS' bond series 2004F, 2004H and 2005C with funds provided by the City of Chicago.



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, Capital Projects Fund 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 2008 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, 2008 compared to the final budget as of June 30, 2008.

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

	FY 2008 Approved Budget	Transfers In/(Out)	Final Appropriations	FY 2008 Actual	Variance
Revenues:					
Property taxes	$1,771	$ —	$1,771	$1,763	$ (8)
Replacement taxes	146	—	146	160	14
State aid	1,653	—	1,653	1,692	39
Federal aid	862	—	862	833	(29)
Investment income	37	—	37	41	4
Other	70	—	70	97	27
Subtotal	$4,539	$ —	$4,539	$4,586	$ 47
Other financing sources	—	—	—	4	4
Total	$4,539	$ —	$4,539	$4,590	$ 51
Expenditures:					
Salaries	$2,574	$ 38	$2,612	$2,445	$(167)
Benefits	832	(50)	782	767	(15)
Services	655	114	769	748	(21)
Commodities	317	5	322	307	(15)
Other fixed charges	270	(107)	163	128	(35)
Total	$4,648	$ —	$4,648	$4,395	$(253)
Change in Fund Balance	$ (109)			$ 195	

Actual General Operating Fund revenues were $47 million higher than the budgeted amount. The variance is primarily due to:

- Replacement tax revenue is $14 million over budget due to higher corporate profits.
- State aid is $39 million higher than budget due to timing of state aid payments.
- Federal aid is $29 million lower than budget due to aggressive budgeting of federal revenues based on potential grant awards.
- Other income is $27 million higher than budget due to Education Support Personnel (ESP) On-behalf pension payments and higher private grants.

Actual General Operating Fund expenditures were $253 million under budget. The variance is primarily due to:

- Salaries expenditure was under budget by $167 million due to teacher's salaries, which were under budget by $150 million and career service salaries which were also under budget by $17 million.
- Benefit charges expenditure was under budget by $15 million due to unemployment compensation costs and workers' compensation costs which were under budget by $10 million and $4.8 million respectively.
- Services expenditure was under budget by $21 million due to lower spending for professional services.
- Commodities expenditure was under budget by $15 million due to reduced spending on food and supplies of $4.8 million and $9.7 million, respectively.
- Other Fixed charges expenditure was under budget by $35 million due to less spending in contingency projects and general liability insurance.

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.

In August 2008, the Board adopted a balanced budget for fiscal year 2009 that reflected total resources, including $145.2 million of available fund balances, and appropriations of $4.85 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.edu** for a complete copy of this report and other financial information.

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

CHICAGO PUBLIC SCHOOLS

Chicago Board of Education

STATEMENT OF NET ASSETS

June 30, 2008

(Thousands of Dollars)

	Governmental Activities
ASSETS:	
Current Assets:	
Cash and investments	$1,117,433
Cash and investments in escrow	969,166
Cash and investments held in school internal accounts	30,167
Property taxes receivable, net of allowance	1,009,746
Other receivables:	
Replacement taxes	32,511
State aid, net of allowance	515,087
Federal aid	223,988
Other	57,983
Other assets	32,516
Total Current Assets:	$3,988,597
Non-current Assets:	
Land and construction in progress	728,437
Buildings, building improvements and equipment, net of accumulated depreciation	3,955,111
Total Assets	$8,672,145
LIABILITIES:	
Current Liabilities:	
Accounts payable	$ 284,650
Accrued payroll and benefits	495,167
Amount held for student activities	30,167
Other accrued liabilities	10,932
Deferred revenue	898
Interest payable	23,481
Current portion of long-term debt and capitalized lease obligations	79,035
Total Current Liabilities:	$ 924,330
Long-term liabilities:	
Debt, net of premiums and discounts	4,647,901
Capitalized lease obligations	388,835
Pension	1,857,347
Other postemployment benefits	579,803
Other benefits and claims	374,888
Total Liabilities	$8,773,104
NET ASSETS:	
Invested in capital assets, net of related debt	$ 133,440
Restricted:	
Debt service	445,782
Donations	1,826
Enabling legislation	102,695
Unrestricted	(784,702)
Total Net Assets	$ (100,959)

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, 2008

(Thousands of Dollars)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS					
Governmental activities:					
Instruction	$3,138,036	$ 3,940	$505,529	$ 82,158	$(2,546,409)
Support services:					
Pupil support services	384,765	—	28,365	11,560	(344,840)
Administrative support services	205,693	—	70,778	6,180	(128,735)
Facilities support services	519,982	—	13,753	12,302	(493,927)
Instructional support services	496,708	—	138,902	13,004	(344,802)
Food services	193,614	8,537	156,956	2,690	(25,431)
Community services	46,779	—	31,440	676	(14,663)
Interest expense	274,356	—	—	—	(274,356)
Other	10,652	—	—	—	(10,652)
Total Governmental Activities	$5,270,585	$12,477	$945,723	$128,570	$(4,183,815)

General Revenues:	
Taxes:	
Property taxes	$1,861,781
Replacement taxes	215,489
Non-program State aid	1,756,386
Interest and investment earnings	85,896
Gain on sale of fixed assets	4,369
Miscellaneous	45,386
Total General Revenues	$3,969,307
Change in net assets	$ (214,508)
Net assets — beginning	113,549
Net assets — ending	$ (100,959)

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, 2008

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Totals
ASSETS:				
Cash and investments	$1,020,304	$ —	$ 97,129	$1,117,433
Cash and investments in escrow	6,180	622,887	340,099	969,166
Cash and investments held in school internal accounts	30,167	—	—	30,167
Receivables:				
Property taxes, net of allowance	982,212	—	27,534	1,009,746
Replacement taxes	30,934	—	1,577	32,511
State aid, net of allowance	515,087	—	—	515,087
Federal aid	222,067	1,921	—	223,988
Other	8,405	46,135	3,443	57,983
Due from other funds	66,376	39,827	22,014	128,217
Other assets	5,098	—	—	5,098
Total Assets	$2,886,830	$710,770	$491,796	$4,089,396
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	$ 248,703	$ 22,654	$ 13,293	$ 284,650
Accrued payroll and benefits	428,753	—	—	428,753
Amount held for student activities	30,167	—	—	30,167
Due to other funds	61,841	66,376	—	128,217
Deferred property tax revenue	981,991	—	27,543	1,009,534
Other deferred revenue	465,779	15,637	—	481,416
Total Liabilities	$2,217,234	$104,667	$ 40,836	$2,362,737
FUND BALANCES:				
Reserved:				
Reserved for encumbrances	$ 132,684	$268,597	$ —	$ 401,281
Reserved for restricted donations	1,826	—	—	1,826
Reserved for specific purposes	102,695	—	—	102,695
Reserved for debt service	—	—	272,471	272,471
Unreserved:				
Designated to provide operating capital	258,000	—	—	258,000
Undesignated	174,391	337,506	178,489	690,386
Total Fund Balances	$ 669,596	$606,103	$450,960	$1,726,659
Total Liabilities and Fund Balances	$2,886,830	$710,770	$491,796	$4,089,396

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, 2008

(Thousands of Dollars)

Total fund balances — governmental funds		$ 1,726,659
Prepaid assets and deferred charges are recorded as expenditures in governmental funds. The Statement of Net Assets includes these amounts as other assets.		
Deferred charges — bond issuance costs		27,418
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		7,144,334
Accumulated depreciation		(2,460,786)
Liabilities applicable to the CPS' governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest payable on debt and other long-term obligations is not recorded in the governmental funds but they are reported in the Statement of Net Assets. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		
Other accrued liabilities	$ (10,932)	
Debt, net of premiums and discounts	(4,701,456)	
Capitalized lease obligations	(414,315)	
Pension	(1,857,347)	
Other postemployment benefits	(579,803)	
Other benefits and claims	(441,302)	
		(8,005,155)
Interest payable		(23,481)
Revenues that have been deferred or unearned in the governmental funds because they are not available but are recognized as revenue in the government-wide financial statements.		
Deferred property tax revenue		1,009,534
Other deferred revenue		480,518
Net Assets		$ (100,959)

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, 2008

With Comparative Amounts for the Fiscal Year Ended June 30, 2007

(Thousands of Dollars)

	General Operating Fund	Capital Projects Fund	Debt Service Fund	Total Fiscal Year Ended June 30, 2008	Total Fiscal Year Ended June 30, 2007 (as restated)
REVENUES:					
Property taxes	$1,763,282	$ —	$ 50,635	$ 1,813,917	$1,767,760
Replacement taxes	159,805	—	55,684	215,489	201,509
State aid	1,692,351	58	153,625	1,846,034	1,680,506
Federal aid	832,526	43,515	—	876,041	719,818
Interest and investment income	40,905	25,970	19,020	85,895	116,907
Other	96,816	60,457	23,755	181,028	286,139
Total Revenues	$4,585,685	$ 130,000	$ 302,719	$ 5,018,404	$4,772,639
EXPENDITURES:					
Instruction	$2,575,124	$ —	$ —	$ 2,575,124	$2,491,653
Pupil support services	362,325	—	—	362,325	349,324
Administration support services	193,696	—	—	193,696	173,283
Facilities support services	385,601	—	—	385,601	353,410
Instructional support services	407,608	—	—	407,608	387,424
Food services	181,778	—	—	181,778	179,902
Community services	45,708	—	—	45,708	45,467
Teacher's pension and retirement benefits	206,651	—	—	206,651	155,563
Capital outlay	3,838	463,057	—	466,895	345,963
Debt service	21,704	—	260,438	282,142	342,179
Other	10,652	—	—	10,652	8,126
Total Expenditures	$4,394,685	$ 463,057	$ 260,438	$ 5,118,180	$4,832,294
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES	$ 191,000	$(333,057)	$ 42,281	$ (99,776)	$ (59,655)
OTHER FINANCING SOURCES (USES):					
Gross amounts from debt issuances	$ —	$ 238,720	$ 1,435,835	$ 1,674,555	$ 355,805
Premiums	—	13,835	27,391	41,226	14,444
Sales of general capital assets	—	6,404	—	6,404	25,673
Payment to refunded bond escrow agent	—	—	(1,474,081)	(1,474,081)	—
Transfers in/(out)	3,813	—	(3,813)	—	—
Total other financing sources (uses)	$ 3,813	$ 258,959	$ (14,668)	$ 248,104	$ 395,922
NET CHANGE IN FUND BALANCES	$ 194,813	$ (74,098)	$ 27,613	$ 148,328	$ 336,267
Fund Balances, beginning of period as restated (Note 16)	474,783	680,201	423,347	1,578,331	1,242,064
Fund Balances, end of period	$ 669,596	$ 606,103	$ 450,960	$ 1,726,659	$1,578,331

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, 2008

(Thousands of Dollars)

Total net change in fund balances — governmental funds		$ 148,328
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	$ 368,866	
Depreciation expense	(171,127)	
		197,739
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		(1,674,555)
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		1,516,152
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		(63,450)
Government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities		(11,673)
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		47,865
Grants		(14,905)
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		2,750
Sick pay		(54,161)
Vacation pay		(34,531)
Workers' compensation		(11,404)
General and automobile liability		35
Net pension obligation		(105,920)
Other postemployment benefits		(154,699)
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		(2,079)
Change in Net Assets		$ (214,508)

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, 2008
(Thousands of Dollars)

	Approved Budget	Transfers In/(Out)	Final Appropriations	Fiscal Year Actual	Variance
REVENUES:					
Property taxes	$1,770,689	$ —	$1,770,689	$1,763,282	$ (7,407)
Replacement taxes	145,900	—	145,900	159,805	13,905
State aid	1,653,332	—	1,653,332	1,692,351	39,019
Federal aid	862,162	—	862,162	832,526	(29,636)
Interest and investment income	36,650	—	36,650	40,905	4,255
Other	70,523	—	70,523	96,816	26,293
Total Revenues	$4,539,256	$ —	$4,539,256	$4,585,685	$ 46,429
EXPENDITURES:					
Salaries —					
Teachers	$2,011,812	$ 23,185	$2,034,997	$1,885,400	$149,597
Career services	561,881	15,415	577,296	559,741	17,555
Commodities —					
Energy	90,951	(5,875)	85,076	86,759	(1,683)
Food	89,477	(1,312)	88,165	83,326	4,839
Textbooks	82,784	8,016	90,800	89,514	1,286
Supplies	52,592	3,155	55,747	46,030	9,717
Other	1,679	299	1,978	910	1,068
Services —					
Professional fees	319,700	65,355	385,055	360,277	24,778
Charter schools	15	191,386	191,401	189,006	2,395
Transportation	84,260	21,066	105,326	102,828	2,498
Tuition	235,379	(170,898)	64,481	65,105	(624)
Telephone and telecommunications	4,952	355	5,307	17,671	(12,364)
Other	10,457	6,946	17,403	13,253	4,150
Equipment — Educational	20,233	28,185	48,418	39,003	9,415
Building and sites —					
Repairs and replacements	39,184	3,250	42,434	36,999	5,435
Capital outlay	—	—	—	10	(10)
Fixed charges —					
Teachers' pension	349,301	(3,974)	345,327	350,483	(5,156)
Career service pension	89,676	(1,627)	88,049	89,776	(1,727)
Hospitalization and dental insurance	307,282	(41,105)	266,177	260,386	5,791
Medicare	34,382	(2,868)	31,514	31,075	439
Unemployment compensation	10,831	(236)	10,595	5,764	4,831
Workers compensation	40,534	(581)	39,953	29,757	10,196
Rent	10,681	1,486	12,167	11,020	1,147
Debt service	1,420	—	1,420	21,704	(20,284)
Other	198,793	(139,623)	59,170	18,888	40,282
Total Expenditures	$4,648,256	$ —	$4,648,256	$4,394,685	$253,571
REVENUES IN EXCESS OF/(LESS THAN) EXPENDITURES	$ (109,000)	$ —	$ (109,000)	$ 191,000	$300,000
OTHER FINANCING SOURCES					
Transfers in	—	—	—	3,813	3,813
Total other financing sources	$ —	$ —	$ —	$ 3,813	$ 3,813
NET CHANGE IN FUND BALANCE	$ (109,000)	$ —	$ (109,000)	$ 194,813	$303,813
Fund Balance, beginning of period as restated (Note 16)	474,783	—	474,783	474,783	—
Fund Balance, end of period	$ 365,783	$ —	$ 365,783	$ 669,596	$303,813

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

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

New Accounting Standards

GASBS 53, *Accounting and Financial reporting for Derivative Instruments* is effective for CPS with its year ended June 30, 2010. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by 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 from nonexchange transactions are recognized in accordance with the GASB requirements of accounting and financial reporting for nonexchange transactions.

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

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 also considers State aid, Federal aid and replacement tax revenues that are susceptible to accrual to be available if they are collected within 30 days of fiscal year end. This represents a change from previous fiscal years which resulted in a fund balance restatement for prior years described in Note 16. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Funds

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

a. General Operating Fund

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

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

b. Capital Projects Fund

The Capital Projects Fund includes the following programs:

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

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

c. Debt Service Fund

The Debt Service Fund includes the following programs:

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

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

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

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

Restricted Assets

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

Receivables and Payables

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

A calendar year's property tax levies are billed (extended) in two installments in the subsequent calendar year. Calendar year 2007 property taxes were levied for fiscal year 2008 in December 2007, and were billed in fiscal year 2008. In 2008, the installment due dates were March 1 and November 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 2008.

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

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

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

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

Vacation and Sick Pay

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

Long-term Obligations

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

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

Swaps

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

As a result of the collapse of the variable Auction Rate market in February 2008, CPS terminated six swap agreements in the notional amount of $965,275,000. The termination amounts were determined by negotiated and market quotation methods which resulted in a $20.5 million termination payment to the counterparties.

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Management's Use of Estimates

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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

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

In 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.

In August 2008, the Board adopted a balanced budget for fiscal year 2009 that reflected total resources, including $145.2 million of available reserved fund balances, and appropriations of $4.85 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 2008. Actual expenditures in the Capital Projects Fund include expenditures on projects that were budgeted in the current and prior fiscal years.

NOTE 3. PROPERTY TAXES AND STATE AID REVENUE

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

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

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

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

Legal limitations on tax rates and the rates extended in calendar years 2008 and 2007 are shown below.

	Maximum 2008 Legal Limit	Tax Rates Extended Per $100 of EAV 2008	Tax Rates Extended Per $100 of EAV 2007
General Operating Fund:			
Educational	(A)	$2.376	$2.078
Workers' and Unemployment Compensation/Tort Immunity	(B)	.191	.021
Public Building Commission Operations and Maintenance	(B)	.000	.521
Debt Service Fund:			
Public Building Commission Leases Program	(C)	.016	.077
		$2.583	$2.697

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

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

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

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

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

	Fund Financial Statements	Government Wide-Financial Statements
Revenues:		
General State Aid Unrestricted	$ 846,408	$ 846,408
Supplementary General State Aid	261,000	261,000
General Education Block Grant	166,519	166,519
Educational Services Block Grant	447,442	469,617
Other Restricted State Revenue	124,665	122,838
Total State Aid	$1,846,034	$1,866,382
Program Revenues:		
Operating Grants and Contributions		(109,996)
Non-Program General State Aid		$1,756,386

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, 2008, the book amount of the CPS' deposit accounts was $1.4 million. The bank balances totaled $34.6 million as of June 30, 2008. The difference between the book and bank balances primarily represents checks that have been issued but have not yet cleared as of June 30, 2008. The bank balance was covered by Federal depository insurance and by collateral held by third-party custodians.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

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

Investments

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

The CPS' Investment Policy contains the following stated objectives:

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

At June 30, 2008, the CPS had the following investments ($000's) and maturities:

Investment Type	Ratings	Carrying Amount	Maturities Less Than 1 Year	Maturities 1-5 Years
Repurchase Agreements	AAA	$ 91,933	$ 91,933	$ —
U.S. Government Agency Securities	AAA	782,247	158,118	624,129
Commercial Paper	A1 or A1+/P-1	268,687	268,687	—
Money Market Mutual Funds	AAA	972,497	972,497	—
Total Investments		$2,115,364	$1,491,235	$624,129
Cash		1,402		
Total Cash and Investments		$2,116,766		

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, 2008, 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, 2008, 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, 2008 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.

NOTE 4. CASH DEPOSITS AND INVESTMENTS (continued)

Custodial Risk — During the fiscal year ended June 30, 2008, 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.

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, 2008 ($000's):

Fund:	Amount
General Operating Fund	$1,056,651
Capital Projects Fund	622,887
Debt Service Fund	437,228
Total Cash and Investments	$2,116,766

NOTE 5. RECEIVABLES

Receivables as of June 30, 2008 for the CPS, net of the applicable allowance for uncollectible accounts, are as follows ($000's):

	Fund Financial Statements	Government-Wide Financial Statements
Property taxes	$1,077,762	$1,077,762
Replacement taxes	32,511	32,511
State aid	518,929	518,929
Federal aid	223,988	223,988
Other	60,660	60,660
Total Receivables	$1,913,850	$1,913,850
Less: Allowance for uncollectibles — property tax	(68,016)	(68,016)
Less: Allowance for uncollectibles — state aid	(3,842)	(3,842)
Less: Allowance for uncollectibles — other	(2,677)	(2,677)
Total Receivables, net	$1,839,315	$1,839,315

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, 2008, the components of deferred revenue reported in the fund financial statements are as follows ($000's):

Deferred property taxes	$1,009,534
Other deferred revenue	481,416
Total Deferred Revenue	$1,490,950

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows ($000's):

Government-wide activities:	Beginning Balance	Increases	Decreases and Transfers to In-service	Ending Balance
Capital assets, not being depreciated:				
Land	$ 248,713	$ 12,744	$ (120)	$ 261,337
Construction in progress	354,531	340,385	(227,816)	467,100
Total capital assets not being depreciated	$ 603,244	$ 353,129	$(227,936)	$ 728,437
Capital assets being depreciated:				
Buildings and improvements	$ 6,051,231	$ 228,790	$ (28,181)	$ 6,251,840
Equipment and administrative software	149,045	15,012	0	164,057
Total capital assets being depreciated	$ 6,200,276	$ 243,802	$ (28,181)	$ 6,415,897
Total Capital Assets	$ 6,803,520	$ 596,931	$(256,117)	$ 7,144,334
Less accumulated depreciation for:				
Buildings and improvements	$(2,274,440)	$(164,607)	$ 25,974	$(2,413,073)
Equipment and administrative software	(41,193)	(6,520)	0	(47,713)
Total accumulated depreciation	$(2,315,633)	$(171,127)	$ 25,974	$(2,460,786)
Capital Assets, net of depreciation	$ 4,487,887	$ 425,804	$(230,143)	$ 4,683,548

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

Governmental activities:	
Instruction	$107,322
Pupil support services	15,100
Administrative support services	8,072
Facilities support services	16,070
Instructional support services	16,987
Food services	7,576
Total Depreciation	$171,127

Construction Commitments

The CPS had active construction projects as of June 30, 2008. These projects include new construction and renovations of schools. At year-end, the CPS had approximately $268.6 million in outstanding construction encumbrances.

NOTE 7. INTERFUND TRANSFERS AND BALANCES

Interfund Transfers

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

NOTE 7. INTERFUND TRANSFERS AND BALANCES (continued)

General Operating Fund:	
Due from Capital Improvement Program	$ 66,376
Due to Capital Asset Program	(39,827)
Due to Bond Redemption and Interest Program	(22,014)
Total — Due from other Funds	$ 4,535
Capital Projects Fund:	
Capital Assets Program — Due from General Operating Fund	$ 39,827
Capital Improvement Program — Due to General Operating Fund	(66,376)
Total — Due to other Funds	$(26,549)
Debt Service Fund:	
Bond Redemption and Interest Program — Due from General Operating Fund	$ 22,014

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, 2008, CPS made operating transfers of $1.5 million from the Public Building Commission Leases Program to the General Operating Fund to transfer interest earnings and operating transfers of $2.3 million from the Bond Redemption and Interest Program to the General Operating Fund to pay for costs associated with the refunding of certain outstanding bonds.

NOTE 8. LONG-TERM DEBT

General Obligation Bonds

The CPS issued the following bonds in fiscal year 2008:

Unlimited Tax General Obligation Bonds (Series 2007A)

In August 2005, CPS sold an option to Bank of America N.A. under which CPS would enter into an interest rate swap associated with $100,000,000 of bonds refunding the Series 1997A bonds upon exercise of option in July 2007 (effective December 2007). In November 2006, CPS also sold an option to Royal Bank of Canada under which CPS would have to enter into an interest rate swap associated with $162,785,000 of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). The intention of entering into the swaps were to effectively economically refund $262,785,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing upfront payments of $18,345,000 and $24,925,000 to be used for costs of issuance and debt service requirements in fiscal year 2006 and 2007.

In July 2007, the counterparties exercised their swaption options and in September 2007, CPS issued $262,785,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007A) and in December 2007, CPS entered into two interest rate swaps associated with the issuance of the Series 2007A auction rate bonds. The proceeds from these bonds were used to refund a portion of Series 1997A bonds. As a result of the issuance, net proceeds along with debt service funds on hand and proceeds related to CPS' swaption agreement totaling $272,428,076 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase $262,785,000 of the Series 1997A bonds in full on December 1, 2007, and the bonds are considered fully refunded. The debt service on this issuance will be paid by revenues received from an intergovernmental agreement with the City of Chicago and Personal Property Replacement Tax revenues.

The following table details the payments to the refunded bond escrow agent ($000's):

Description	Amount
Net proceeds	$262,785
CPS deposit	2,703
Amounts on hand related to refunded debt	6,940
Total	$272,428

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $9.6 million. This difference reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031.

Unlimited Tax General Obligation Bonds (Series 2007BC)

In September 2007, CPS issued $204,635,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2007BC) at a premium of $10,308,755. The proceeds from these bonds were used to refund a portion of Series 1997 and Series 1997A bonds and to pay costs of issuance of the bonds. As a result of the issuance, net proceeds of $212,793,437 were used to purchase U.S. Government Securities, which were deposited in a trust with an escrow agent to purchase $199,225,000 of the Series 1997A bonds and $6,700,000 of the Series 1997 on December 1, 2007, and the bonds are considered fully refunded. The debt service on this issuance will be paid by revenues received from an intergovernmental agreement with the City of Chicago and Personal Property Replacement Tax revenues.

The following table details the payments to the refunded bond escrow agent ($000's):

Description	Amount
Net proceeds	$212,793

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6.9 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2025. CPS completed the refunding to reduce its total debt service over the next 17 years and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $9.7 million.

Unlimited Tax General Obligation Bonds (Series 2007D)

In December 2007, CPS issued $238,720,000 in Unlimited Tax General 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. As a result of the issuance, CPS recorded net proceeds of approximately $250,000,000 in the Capital Improvement Fund. The debt service on this issuance will be paid from General State Aid revenues.

Debt Restructuring

As a result of the collapse of the variable Auction Rate market in February 2008, CPS issued the following refunding bonds to restructure its auction rate debt.

Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008A)

In May 2008, CPS issued $262,785,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008A). The proceeds from these bonds were used to refund the Series 2007A bonds.

CPS contributed $9.5 million to pay for costs of issuance and fund debt service. As a result of the issuance, $262,976,142 was deposited in a trust with an escrow agent to purchase the Series 2007A bonds upon the next remarketing. On May 16, 2008, the bonds were repurchased in full and are considered fully refunded. The debt service on this issuance will be paid by revenues received from an intergovernmental agreement with the City of Chicago and Personal Property Tax revenues.

The following table details the payments to the refunded bond escrow agent ($000's):

Description	Amount
Net proceeds	$262,785
Amount on hand related to refunded debt	191
Total	$262,976

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.3 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2031. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful as there is an uncertainty of future debt service requirements. Accordingly, no economic gain has been made for this refunding.

Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008B)

In May 2008, CPS issued $240,975,000 in Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008B). The proceeds from these bonds were used to refund the Series 2003D bonds. CPS contributed $0.9 million to pay for costs of issuance and fund debt service. As a result of the issuance, $241,761,730 was deposited in a trust with an escrow agent to purchase the Series 2003D bonds upon the next remarketing. On May 30, 2008, the bonds were repurchased in full and are considered fully refunded. The debt service on this issuance will be paid from General State Aid revenues.

The following table details the payments to the refunded bond escrow agent ($000's):

Description	Amount
Net proceeds	$240,975
Amount on hand related to refunded debt	787
Total	$241,762

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3.1 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2034. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful as there is an uncertainty of future debt service requirements. Accordingly, no economic gain has been made for this refunding.

Unlimited Tax General Obligation Refunding Bonds Private Placement (Series 2008C)

In May 2008, CPS issued $464,655,000 in Unlimited Tax General Obligation Refunding Bonds (Series 2008C) at a premium of $17,082,455. The proceeds from these bonds were used to refund the Series 2003B and Series 2004B bonds. CPS contributed $4.3 million to the refunded escrow agent and $2.5 million to pay for cost of issuance and fund debt service. As a result of the issuance, $484,122,177 was deposited in a trust with an escrow agent to purchase the Series 2003B bonds and the Series 2004B bonds upon the next remarketing. On May 29, 2008, the bonds were repurchased in full and are considered fully refunded. The debt service on this issuance will be paid from General State Aid revenues.

NOTE 8. LONG-TERM DEBT (continued)

The following table details the payments to the refunded bond escrow agent ($000's):

Description	Amount
Net proceeds	$479,847
CPS deposit	4,275
Total	$484,122

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $7.2 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2033. Because the refunded bonds are variable rate, the calculation of an economic gain disclosure is not meaningful as there is an uncertainty of future debt service requirements. Accordingly, no economic gain has been made for this refunding.

NOTE 8. LONG-TERM DEBT (continued)

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

Series	Principal Outstanding June 30, 2007	Issuances	Retirements	Principal Outstanding June 30, 2008	Accreted Interest	Principal and Accreted Interest June 30, 2008
2008C	$ —	$ 464,655	$ —	$ 464,655	$ —	$ 464,655
2008B	—	240,975	—	240,975	—	240,975
2008A	—	262,785	—	262,785	—	262,785
2007D	—	238,720	—	238,720	—	238,720
2007BC	—	204,635	—	204,635	—	204,635
2007A	—	262,785	(262,785)	—	—	—
2006B	355,805	—	(2,745)	353,060	—	353,060
2006A	6,853	—	—	6,853	—	6,853
2005DE	319,375	—	(5,890)	313,485	—	313,485
2005B	52,595	—	—	52,595	—	52,595
2005A	193,585	—	—	193,585	—	193,585
2004G	12,500	—	—	12,500	—	12,500
2004E	37,285	—	(3,975)	33,310	—	33,310
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)	—	—	—
2004A	205,410	—	—	205,410	—	205,410
2003D	245,525	—	(245,525)	—	—	—
2003C	4,585	—	—	4,585	—	4,585
2003B	183,775	—	(183,775)	—	—	—
2003A	64,125	—	(5,165)	58,960	—	58,960
2002A	47,790	—	(615)	47,175	—	47,175
2001C	28,070	—	(4,120)	23,950	—	23,950
2001B	9,440	—	—	9,440	—	9,440
2001A	5,600	—	(835)	4,765	—	4,765
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	—	(1,229)	531,325	177,469	708,794
1998B-1	328,714	—	—	328,714	206,623	535,337
1998	14,000	—	—	14,000	—	14,000
1997A	499,995	—	(462,010)	37,985	28,872	66,857
1997	71,285	—	(9,970)	61,315	—	61,315
1996	52,650	—	(3,190)	49,460	—	49,460
Total Bonds	$4,091,856	$1,674,555	$(1,489,904)	$4,276,507	$412,964	$4,689,471
Note Payable	3,606	—	(1,090)	2,516	—	2,516
Asbestos Abatement Loans	4,885	—	(1,138)	3,747	—	3,747
Total Long-Term Debt	$4,100,347	$1,674,555	$(1,492,132)	$4,282,770	$412,964	$4,695,734
Less Current Portion						(53,555)
Deferred Amounts:						
On Refunding						(100,160)
For Net Premium/(Discount)						105,882
Total Long-term Debt, net of Refunding, Current Portion and Premium/(Discount)						$4,647,901

NOTE 8. LONG-TERM DEBT (continued)

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

Bonds	$(55,010)
Note Payable	(1,198)
Asbestos Abatement Loans	(1,037)
Accreted Interest	(1,215)
Refunding	4,905
Subtotal	$(53,555)
Lease obligations	(25,480)
Total Current Portion	$(79,035)

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

Defeased Debt

Defeased bonds have been removed from the Statement of Net Assets because related assets have been placed in an irrevocable trust that, together with interest earned, will provide amounts sufficient for payment of all principal and interest. Defeased bonds at June 30, 2008 are as follows ($000's):

Description	Amount Defeased	Amount Outstanding
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
Total	$398,070	$398,070

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, 2008 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 Principal	Fixed Rate Bonds Interest	Variable Rate Bonds Principal	Variable Rate Bonds Interest*	Variable Rate Bonds Interest Rate Swaps, Net**	Total
2009	$ 39,865	$ 114,168	$ 15,145	$ 50,744	$ 26,539	$ 246,461
2010	92,607	137,116	19,490	50,106	26,315	325,634
2011	93,087	136,606	21,135	49,239	26,080	326,147
2012	111,816	130,539	22,105	48,372	25,834	338,666
2013	90,643	132,235	23,275	47,314	25,577	319,044
2014-2018	543,145	645,757	140,540	221,839	123,445	1,674,726
2019-2023	723,962	621,563	196,915	188,640	114,867	1,845,947
2024-2028	756,898	516,509	371,205	137,404	95,349	1,877,365
2029-2033	411,644	604,121	428,750	52,588	37,616	1,534,719
2034-2037	81,935	8,057	92,345	4,482	3,557	190,376
Total	$2,945,602	$3,046,671	$1,330,905	$850,728	$505,179	$8,679,085

* 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, 2008 and was calculated as follows:

Series 2000C — 1.530%
Series 2004C — 1.825%
Series 2005DE — 7.600%
Series 2008A — 2.900%
Series 2008B — 2.900%

** Series 2000C computed: (3.823% – 1.724%) x Outstanding Principal
Series 2004C computed: (3.825% – 1.724%) x Outstanding Principal
Series 2005DE computed: (3.662% – 1.724%) x Outstanding Principal
Series 2008A computed: (5.25% – 2.00375%) x Outstanding Principal
Series 2008B computed: (3.771% – 1.724%) x Outstanding Principal

Variable rate bonds are demand obligations that allow bondholders to demand repayment on a weekly basis. The $303,000,000 Series 2000BCD bonds and $130,000,000 Series 2005E bonds are supported by Standby Bond Purchase Agreements with Dexia Credit Locale which expire on December 8, 2012. Under the Standby Bond Purchase Agreements, any bonds put to the bank would incur an interest rate equal to the Prime Rate as listed in the Wall Street Journal through December 8, 2012, at the Prime Rate plus 1.0% thereafter, and at the Prime Rate plus 2.0% in the event of a default, but in no case may the rate exceed 15%. The commitment fee is 0.125% per annum for the Series 2000BCD bonds and at June 30, 2008 there were no bonds drawn under the Standby Bond Purchase Agreement. The commitment fee is 0.11% per annum for the Series 2005E bonds and at June 30, 2008 there were $79,500,000 bonds drawn under the Standby Bond Purchase Agreement.

The $210,660,000 Series 2004CDE and $183,485,000 Series 2005D bonds are supported by Standby Bond Purchase Agreements with Depfa Bank PLC which expire on December 8, 2012. Under the 2004CDE Standby Bond Purchase Agreement, any bonds put to the bank would incur an interest rate equal to the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5% for the first 90 days, at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 1.0% for the 91st day and thereafter, and at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 3.0% in the event of a default, but in no case may the rate exceed 15%. Under the 2005D Standby Bond Purchase Agreement, any bonds put to the bank would incur an interest rate equal to the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5% for the first 90 days, at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 1.0% for the 91st day through the date 10 years prior to maturity, and thereafter at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 1.5%, and at the greater of Depfa's Prime Rate or the Fed Funds rate plus 0.5%, plus 3.0% in the event of a default, but in no case may the rate exceed 15%. The commitment fee is 0.11% per annum for the Series 2004CDE and Series 2005D bonds and at June 30, 2008 there were no bonds drawn under the Standby Bond Purchase Agreements.

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

Series	Accreted Interest June 30, 2007	Increase	Payment	Accreted Interest June 30, 2008
1997A	$ 25,393	$ 3,479	$ —	$ 28,872
1998B-1	180,300	26,323	—	206,623
1999A	154,810	23,215	(556)	177,469
	$360,503	$53,017	$(556)	$412,964

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, 2008, are as follows ($000's):

Fiscal Year(s)	PBC Lease Rentals	Other	Total
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	51,963	424	52,387
2014-2018	260,100	2,118	262,218
2019-2021	82,730	1,143	83,873
Total Rentals	$ 602,261	$ 5,381	$ 607,642
Less — Interest and other costs	(190,571)	(2,756)	(193,327)
Principal amount of rental due	$ 411,690	$ 2,625	$ 414,315

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

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008
PBC Leases	$435,535	$—	$(23,845)	$411,690
Other Capitalized Leases	2,800	—	(175)	2,625
	$438,335	$—	$(24,020)	$414,315
Less: Current Portion PBC Leases				(25,305)
Current Portion Other Capitalized Leases				(175)
Total Long-Term Leases Outstanding				$388,835

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, 2008 were $8.2 million. Following is a summary of operating lease commitments as of June 30, 2008 (000's):

Fiscal Year(s)	Non-Real property leases	Real Property leases	Total
2009	$ 9,514	$10,078	$ 19,592
2010	7,173	9,403	16,576
2011	4,102	9,489	13,591
2012	2,266	8,792	11,058
2013	9	8,976	8,985
2014-2018	—	24,190	24,190
2019-2023	—	9,921	9,921
2024	—	94	94
Total Operating Lease Commitments	$23,064	$80,943	$104,007

NOTE 10. DERIVATIVE INSTRUMENTS

Interest Rate Swaps

During fiscal year 2008, CPS terminated six swap agreements in the notional amount of $965,275,000. The termination amounts were determined by negotiated and market quotation methods which resulted in a $20.5 million payment to the counterparties.

Series 2008A

Swap Objective. In August 2005, CPS sold an option to Bank of America N.A. under which CPS would enter into an interest rate swap associated with $100,000,000 of bonds refunding the Series 1997A bonds upon exercise of option in July 2007 (effective December 2007). In November 2006, CPS also sold an option to Royal Bank of Canada under which CPS would have to enter into an interest rate swap associated with $162,785,000 of bonds refunding the Series 1997A bonds upon exercise of the option in July 2007 (effective December 2007). The intention of entering into the swaps were to effectively economically refund $262,785,000 of the Series 1997A bonds, avoiding negative arbitrage in advance refunding escrows, while realizing upfront payments of $18,345,000 and $24,925,000 to be used for costs of issuance and debt service requirements in fiscal year 2006 and 2007.

In July 2007, the counterparties exercised their swaption options and in December 2007, CPS entered into two interest rate swaps associated with the issuance of the Series 2007A auction rate bonds. In May 2008, CPS refunded the Series 2007A auction rate bonds. In May 2008, CPS refunded the Series 2007A auction rate bonds with Series 2008A private placement variable rate bonds (262 million). The swaps associated with Series 2007A were transferred to Series 2008A, with the intention of preserving a maximum amount of upfront savings.

Swap terms. The bonds and the related swap agreements mature on December 1, 2030, and the total notional amount of the swaps equals the $262,785,000 of the Series 2008A bonds. Starting in fiscal year 2025, 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 5.25% and receives a variable payment computed at the 70% of the London Interbank Offered Rate (LIBOR) plus 0.28% from Bank of America and Royal Bank of Canada through December 1, 2030.

Fair value. CPS received upfront payments for the options on the swaptions in the amount of $43,270,000 during fiscal year 2006 and 2007. Because CPS received and upfront payment and the fixed payments are higher than current market, the swap has negative fair value. The fair value was determined by market prices quoted by Deriv Activ, and independent derivative valuation company who specializes in daily market to market derivative valuations, as of June 30, 2008, see table below:

Swap Counterparty Data as of June 30, 2008

Counterparty	Swap Notional Amount	Credit Rating; Outlook Moody's	S&P	Swap Fair Value
Bank of America	$100,000,000	Aaa	AA+	$(21,117,511)
Royal Bank of Canada	162,785,000	Aaa	AA-	(32,159,709)
Total	$262,785,000			$(53,277,220)

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, 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 reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Basis risk. CPS' issuance of the 2008A bonds resulted in an expected synthetic interest rate of 5.85%. The swaps expose CPS to basis risk should the rate paid on the variable rate securities be more than .60% higher than the 70% of LIBOR rate plus .28% 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 expected synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2008, the weighted average rate paid on the bonds was 2.90% and 70% of LIBOR plus 0.28% was 2.00375%.

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 2008A 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 2008B

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. During fiscal year 2008, CPS refunded the Series 2003D auction rate bonds with Series 2008B private placement variable rate bonds ($240 million). The swaps associated with Series 2003D were transferred to Series 2008B. The intention of transferring the swaps was to effectively change the variable interest rate to a fixed interest rate of 3.771% plus 0.88%.

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 2008B private placement 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.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

Fair value. As of June 30, 2008, the swaps have a negative fair value as a result of long-term interest rates decrease 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 DerivActiv, and independent derivative valuation company who specializes in daily market to market derivative valuations, as of June 30, 3008 (see table below).

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A−" / "A3", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2008

Counterparty	Swap Notional Amount	Credit Rating; Outlook Moody's	Credit Rating; Outlook S&P	Swap Fair Value
Lehman Brothers	$ 95,350,000	A1	A+; stable	$(5,015,830)
Goldman Sachs	90,000,000	A1	A+; stable	(4,734,395)
Total	$185,350,000			$(9,750,225)

Basis risk. CPS' issuance of the 2008B bonds resulted in an expected synthetic interest rate of 4.651%. The swaps expose CPS to basis risk should the rate paid on the variable auction rate securities be more than the .88% 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 expected synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2008, the weighted average auction rate paid on the bondholders was 2.90% and 70% of LIBOR was 1.72375.

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 2008B 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 Securities Industry and Financial Markets Association Municipal Swap Index Rate (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.

Fair value. As of June 30, 2008, the swaps have a positive fair value as a result of long term interest rates falling since the execution of the swap. The fair value was determined by market prices quoted by DerivActiv, an independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2008 (see table below).

Credit risk. As of June 30, 2008, 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, 2008

Counterparty	Swap Notional Amount	Credit Rating; Outlook Moody's	Credit Rating; Outlook S&P	Swap Fair Value
Loop Financial	$116,151,000	Aa1	AA	$1,427,160
Merrill Lynch	77,434,000	A1	A	810,767
Total	$193,585,000			$2,237,927

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, 2008, the SIFMA rate was 1.55%. As of June 30, 2008, the rate received by one counterparty was 2.25% (70% of LIBOR + 52.4 basis points) and was 1.989% from the other (80.764% of LIBOR), effectively lowering the stated coupon on the bonds by a weighted average of 0.594%.

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 2005A bonds would no longer carry a synthetic fixed interest rate, and would be subject to the interest rate risk associated with variable rate debt. Also, if at the time of termination the swap has a negative fair value, CPS would be liable to the counterparty for payment equal to the swap's fair value.

Series 2005DE

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

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

2013, the notional value of the swap declines by the same amount of the associated principal amortization. Under the swap, CPS pays the counterparty a fixed payment of 3.6617% and receives a variable payment computed at 70% of the LIBOR.

Fair value. As of June 30, 2008, the swap has a negative fair value as a result of long-term interest rates decreasing since the execution of the swap. The fair value was determined by market prices quoted by DerivActiv, and independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2008 (see table below).

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps becomes positive, CPS would be exposed to credit risk in the amount of the derivatives' fair value. To mitigate the potential for credit risk, if a counterparty's credit rating from either Standard & Poor's and Moody's Investors Service are "A+" / "A1", respectively or lower, and the fair value of the swap reaches certain threshold amounts, the fair value of the swap will be collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

Swap Counterparty Data as of June 30, 2008

Counterparty	Swap Notional Amount	Credit Rating; Outlook Moody's	Credit Rating; Outlook S&P	Swap Fair Value
Loop Financial	$287,055,000	Aa1	AA	$(11,276,572)

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, 2008, the weighted average variable rate was 3.836% and 70% of LIBOR was 1.724%. To mitigate the potential for basis risk, CPS' 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' 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.

NOTE 10. DERIVATIVE INSTRUMENTS (continued)

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.

Fair value. As of June 30, 2008, the swap has a negative fair value as a result of long term interest rates decreasing since the execution of the swap. The fair value was determined by market prices quoted by DerivActiv, and independent derivative valuation company who specializes in daily mark to market derivative valuations, as of June 30, 2008 (see table below).

Credit risk. As of June 30, 2008, CPS was not exposed to credit risk because the swaps had a negative fair value. However, should interest rates change and the fair value of the swaps 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 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, 2008

Counterparty	Swaption Notional Amount	Credit Rating; Outlook		Swap Fair Value
		Moody's	S&P	
Royal Bank of Canada	$ 61,100,000	Aaa	AA−	$ (3,637,171)
Royal Bank of Canada	124,320,000	Aaa	AA−	(7,534,363)
Total	$185,420,000			$(11,171,534)

Basis risk. The swaps expose CPS to basis risk should the rate paid on the variable rate debt be higher than the 70% of LIBOR rate received from the swap counterparty. Should any adverse basis differential occur during the swap contract, the rate paid on the bonds will be higher than the 3.6617% synthetic rate, and therefore the expected cost savings may not be realized. As of June 30, 2008, the weighted average variable rate was 1.53% for Series 2000C bonds and 1.825% Series 2004C bonds and 70% of LIBOR was 1.724%. To mitigate the potential for basis risk, CPS' annual debt service fund deposit is calculated at a rate of 3.817%.

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, 2007	Additions	Payments	Balance June 30, 2008
Accrued Sick Pay Benefits	$214,883	$127,269	$(73,107)	$269,045
Accrued Vacation Pay Benefits	39,359	38,997	(4,466)	73,890
Accrued Workers' Compensation Claims	75,414	28,768	(17,364)	86,818
Accrued General and Automobile Claims	10,184	682	(717)	10,149
Tort Liabilities and Other Claims	4,150	—	(2,750)	1,400
Total	$343,990	$195,716	$(98,404)	$441,302
Less: Current Portion of Accrued Sick Pay Benefits				(59,539)
Less: Current Portion of Accrued Vacation Pay Benefits				(6,875)
Total Other Long-term Liabilities				$374,888

Sick Pay Benefits

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; has a minimum of 20 years of service at the time of resignation or retirement, or dies, the employee is entitled to receive, as additional cash compensation, all or a portion of their accumulated sick leave days. The CPS budgets an amount each year in the General Operating Fund for these estimated payments to employees terminated in the current fiscal year.

Vacation Pay Benefits

For eligible employees, the maximum number of accumulated unused vacation days permitted is 40 days for those employees with up to 10 years of service; 53 days for those with 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 2008, 2007 and 2006 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

NOTE 11. OTHER LONG-TERM LIABILITIES (continued)

Workers' and Unemployment Compensation/Tort Immunity Fund for the estimated claims, of which the expenditures are met through an annual tax levy.

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

The CPS is self-insured for workers' compensation claims and certain employee health insurance costs (reimbursed to a provider on a cost plus fees basis). A liability of $48.5 million has been recorded for health insurance costs as a part of accrued payroll in the General Operating Fund, which includes $29.1 million for estimated medical claims incurred but not reported as of June 30, 2008. Following is the activity related to medical claims for which the CPS is self-insured ($000's):

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007	Additions	Payments	Balance June 30, 2008
$49,012	$263,695	$(257,066)	$55,641	$273,403	$(280,580)	$48,464

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, 2007, the most recent report, there were 32,968 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 2008, as in previous fiscal years, the CPS paid a portion (7% — $125.4 million) of the required employees' contribution, which has been recorded as an expenditure in the accompanying financial statements. A portion of grant funds from the Federal government and General Operating Fund revenues provides the funding of the 7% portion. The remaining portion (2%) is withheld from teachers' salaries.

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

Retirement benefit contribution:	
A contribution from the State of Illinois	$ 75,218
A contribution to increase funded ratio to 90%	131,455
A portion of grant funds from the Federal government for teachers paid from certain Federally-funded programs	18,461
Total contributions	$225,134

For the fiscal year ended June 30, 2008, employee contributions are $161.2 million which is 9% of covered payroll. Employer contributions for the year are $225.1 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 $225.1 million and amounts incurred by the CPS for a portion of the required employees' pension contribution of $125.4 million, which total $350.5 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 2008, 2007 and 2006 are as follows ($000's):

	2008	2007	2006
Annual required contribution (ARC)	$ 290,073	$ 370,210	$ 328,366
Interest on Net Pension Obligation (NPO)	140,114	121,042	100,492
Adjustment to annual required contribution	(99,133)	(85,639)	(61,849)
Annual Pension Cost (APC) for the fiscal year ended June 30, 2008	$ 331,054	$ 405,613	$ 367,009
Less: Contributions made	(225,134)	(167,209)	(110,132)
Increase in NPO	$ 105,920	$ 238,404	$ 256,877
Add NPO, beginning of year	1,751,427	1,513,023	1,256,146
NPO, end of year	$1,857,347	$1,751,427	$1,513,023

Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent, open
Remaining amortization period	30 years
Asset valuation method	4 year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	Average of 4% per year
Inflation	3%

NOTE 12. PENSION AND OTHER POSTEMPLOYMENT BENEFITS (continued)

At June 30, 2007, 2006 and 2005 (the actuarial valuation dates), the Schedule of Funding Progress and other trend information is as follows ($000's):

	2007	2006	2005
Actuarial value of assets	$ 11,759,699	$ 10,947,998	$ 10,506,471
Less: Actuarial Accrued Liability (AAL)	(14,677,184)	(14,035,627)	(13,295,876)
AAL unfunded (liability) / surplus	$ (2,917,485)	$ (3,087,629)	$ (2,789,405)
Funded ratio	80.1%	78.0%	79.0%
Covered payroll	$ 1,863,182	$ 1,944,358	$ 1,968,612
Unfunded AAL as a percentage of covered payroll	156.6%	158.8%	141.7%

	2008	2007	2006
Annual pension cost	$ 331,054	$ 405,613	$ 367,009
Percentage of annual pension cost contributed	68.0%	41.2%	30.0%
Net Pension Obligation	$1,857,347	$1,751,427	$1,513,023

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 $131.5 million in fiscal year 2008 to increase the funded ratio to 90% and will make an additional General Operating Fund appropriation of $188.2 million for the fiscal year ended June 30, 2009.

During fiscal year 2008, approximately 96 teachers participated in CPS' early retirement incentive program. The accrued pension cost of $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 2008, as in previous fiscal years, CPS agreed to pay a portion (7% — $35.7 million) of the required employees' contribution for most employees. CPS also receives a portion of the cost of providing pension benefits from grants by the Federal government for career service employees paid from certain Federally-funded programs. In fiscal year 2008, the career service pension expenditure reflected in the fund financial statements is $91.1 million; of this amount $89.8 million is reflected in the General Operating Fund and $1.3 million in the Capital Projects Fund. This total career service pension expenditure is composed of $35.7 million which represents the required employees' contribution paid by CPS on behalf of its employees; $50 million contributed by the City of

Chicago through its specific tax levies for pension plans and the remaining $5.4 million 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 and the Capital Projects Fund.

Career service pension expense in the government-wide financial statements is $91.1 million.

As of December 31, 2007, the date of the latest available report, the Annuity Fund had net assets of approximately $7 billion and an unfunded accrued actuarial liability for all covered employees, including CPS employees, of approximately $3.3 billion. The CPS employs approximately 17,990 of the 34,885 active participants in the Annuity Fund. The CPS, in the opinion of its legal counsel, has no duty to contribute any sum to the Annuity Fund.

Other Postemployment Benefits (OPEB)

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

The Pension Fund administers a health insurance program that includes two external health insurance providers. A recipient of a retirement pension, survivor pension, or disability pension may be eligible to participate in a health insurance program and premium rebate sponsored by the Pension Fund, provided the Pension Fund is the recipient's final pension system prior to retirement. The purpose of this program is to help defray the retired member's premium cost for health insurance. The member is responsible for paying the cost of the insurance and may purchase insurance from the Pension Fund's providers or other outside providers. Each year, the Board of Trustees of the Pension Fund establishes a rebate percentage that is used to defray a portion of the cost of the insurance. The rebate percentage was 70% of the individual member's cost for fiscal years 2007 and 2006. 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, 2007, the most recent available data, there were 14,169 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 2008, 2007 and 2006 are as follows ($000's):

	2008	2007	2006
Total actuarial valuation as of June 30, 2007, June 30, 2006 and June 30, 2005	$(2,022,008)	$(2,373,774)	$(2,825,543)
Total OPEB assets of the Teacher Pension Fund	47,402	41,058	89,763
Unfunded actuarial liability	$(1,974,606)	$(2,332,716)	$(2,735,780)
Annual amount to amortize unfunded liability over 30 years as a level percent of payroll	$ 77,055	$ 91,029	$ 106,758
Normal cost	72,978	118,417	106,558
Annual required contribution	$ 150,033	$ 209,446	$ 213,316
Interest on net OPEB obligation	21,255	10,666	N/a
Adjustment to annual required contribution	(16,589)	(8,324)	N/a
Annual OPEB cost for the fiscal year ended June 30, 2007	$ 154,699	$ 211,788	$ 213,316
Less: Contributions made	—	—	—
Increase in OPEB	$ 154,699	$ 211,788	$ 213,316
Add OPEB, beginning of year	$ 425,104	$ 213,316	—
OPEB, end of year	$ 579,803	$ 425,104	$ 213,316

Actuarial valuation date	June 30, 2007
Actuarial 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, 2008.

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, 2008, net of bonds advance refunded or defeased is $66,645,000 which is payable in fiscal year 2009. The Authority's bonds are not a direct or contingent obligation of the CPS.

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

NOTE 14. FUND BALANCE RESERVATIONS AND NET ASSET RESTRICTIONS

a. Fund Balance Reservation

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

Purpose	Reserved Amount
Workers' Compensation/Tort Immunity	$ 56,610
Supplementary General State Aid	46,085
Total	$102,695

The amount reserved for Supplementary General State Aid represents the unexpended and unencumbered portion of the 2008 Supplementary General State Aid allocation.

In its fiscal year 2008 budget, CPS appropriated in its General Operating Fund $36 million of fund balances from amounts reserved for specific purposes and $73 million of general fund balance.

In its fiscal year 2009 budget, CPS appropriated in its General Operating Fund $45.2 million of fund balances from amounts reserved for specific purposes and $100 million of general fund balance.

In its fiscal year 2008 budget, CPS designated $233.2 million to provide working capital. In its fiscal year 2009 budget, CPS has designated $258 million to provide working capital.

During fiscal year 2008, the Board reserved $272.4 million for Debt Service of which $236.1 million was allocated to the Bond Redemption and Interest Program and the remaining $36.3 million was allocated to the Public Building Commission Leases Program.

b. Net Assets Restrictions

The government-wide statement of net assets reports $550.2 million of restricted net assets, of which $445.7 is restricted for Debt service, $1.8 million is restricted for Donations and $102.7 is restricted by Enabling legislation.

NOTE 15. LITIGATION AND CONTINGENCIES

a. State and Federal Aid Receipts

State and Federal aid is generally subject to review by the responsible governmental agencies for compliance with the agencies' regulations governing the aid. In the opinion of CPS management and legal counsel, any potential adjustments to the Federal or State aid recorded by CPS through June 30, 2008, resulting from a review by a responsible government agency will not have a material effect on CPS' financial statements at June 30, 2008.

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.

NOTE 15. LITIGATION AND CONTINGENCIES (continued)

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 CPS 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. The Board's custodians were responsible for cleaning the area near where Ms. Samuels fell. The key issue at trial will be whether Ms. Samuels' fall caused Aniya's premature birth and death. 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, 2008, 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, 2008.

NOTE 16. CHANGE IN ACCOUNTING METHOD

In 2007 and prior years, CPS' policy considered non-exchange transactions such as State Aid, Federal Aid and Replacement tax revenues, to be available and susceptible to accrual if collected within 90 days of the fiscal year end for fund financial statements. During fiscal year 2008 CPS retrospectively changed its method to consider these revenues to be available and susceptible to accrual if collected within 30 days after the year end. This change is consistent with CPS' current property tax revenue recognition policy.

The fund balances for the years ended June 30, 2006 and June 30, 2007 have been retrospectively adjusted for this change and are as follows:

	General Fund	Capital Projects Fund	Debt Service Fund	Total
Fund Balances				
June 30, 2006 as previously reported	$ 495,897	$504,984	$353,267	$1,354,148
Change in accounting policy	(112,084)	—		(112,084)
Fund Balances, as restated	$ 383,813	$504,984	$353,267	$1,242,064
June 30, 2007 as previously reported	$ 633,936	$680,513	$423,347	$1,737,796
Change in accounting policy	(159,153)	(312)	—	(159,465)
Fund Balances, as restated	$ 474,783	$680,201	$423,347	$1,578,331

NOTE 17. SUBSEQUENT EVENTS

Unlimited Tax General Obligation Refunding Bonds (Series 2005DE, Series 2004CDE, Series 2000BCD) variable rate demand obligations

In August 2008, CPS substituted insurance on $195,000,000 outstanding Unlimited Tax General Obligation Bonds (Series 2005D) as a result of the initial insurer, CIFG, being downgraded below investment grade by both Fitch and Moody's. CIFG was replaced with Assured Guaranty. Cost of issuance of $1.1 million for the substitution were paid from CPS' funds.

NOTE 17. SUBSEQUENT EVENTS (continued)

Also in August 2008, Standard & Poor's downgraded CIFG below investment grade, which resulted in an immediate termination of CPS' Standby Bond Purchase Agreement with Dexia Credit Local for $130,000,000 outstanding Unlimited Tax General Obligation Bonds (Series 2005E). Under the terms of the Series 2005E trust indenture, CPS is required to diligently pursue corrective action within a sixty (60) day period, which action it is currently pursuing. Currently $79,500,000 bonds are bank bonds under the Standby Bond Purchase Agreement, resulting in current interest rates of 6.25% for bank bonds and 9.0% for remarketed bonds.

In September 2008, related to the impact of the global liquidity crisis, Depfa Bank PLC, liquidity provider for the Series 2005D bonds, was downgraded by Standard & Poor's to BBB+ from A, by Moody's to A2 from Aa3 and by Fitch to A- from AA-. Subsequently in October 2008, $153,485,000 of the Series 2005D bonds were unable to be remarketed and are currently bank bonds under the Standby Bond Purchase Agreement, resulting in current interest rates of 4.0% and 6.25% for remarketed bonds.

Also in October 2008, $198,280,000 of the $210,660,000 outstanding Series 2004CDE bonds with Depfa Bank PLC as liquidity provider were unable to be remarketed and are currently bank bonds under the Standby Bond Purchase Agreement, resulting in current interest rates of 4.5% for bank bonds and 8.0% - 9.0% for remarketed bonds.

In September 2008, related to the impact of the global liquidity crisis, Dexia Credit Local, liquidity provider for the Series 2000 BCD bonds, was downgraded by Standard & Poor's to AA− from AA. In October 2008 Dexia Credit Local was downgraded by Moody's to Aa3 from Aa1, by Fitch to AA− from AA+, and again by Standard & Poor's to A+ from AA−. Consequently, $89,850,000 of the Series 2000D bonds were unable to be remarketed and became bank bonds under the Standby Bond Purchase Agreement resulting in interest rates of 4.0% for bank bonds and 3.75 — 5.5% for remarketed bonds. In November 2008, $20,000,000 of the Series 2000D bank bonds were remarketed at a rate of 5.5%.

Unlimited Tax General Obligation Bonds (Series 1996, 1999A and 2008B)

In September 2008, Lehman Brothers Holding Inc. filed for bankruptcy. Lehman Brothers is counterparty to two agreements with CPS. Lehman Brothers Inc. provided a guaranteed investment contract for debt service funds associated with the Series 1996 and 1999A bonds at a rate of 7.27%. Collateral posted by Lehman related to the agreement was liquidated in October 2008, in excess of the principal amount invested. CPS anticipates filing a bankruptcy claim for interest owed under the agreement.

Lehman Brothers Special Financing Inc. ("LBSFI") is counterparty to an interest rate swap agreement associated with the series 2008B bonds. The current mark-to-market valuation of the swap is in favor of LBSFI. CPS is not required to post collateral related to the agreement or make a termination payment as a result of the bankruptcy. As a result of the bankruptcy proceedings, Lehman Brothers Inc. may assume or reject the swap contract by December 18, 2008. CPS does not anticipate making a termination payment in either case.

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APPENDIX B

Summary of Certain Provisions of the Indenture

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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 each 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: (i) on a parity with and sharing ratably and equally in all or any portion of the Pledged State Aid Revenues with the Bonds and the Prior 2008 Authorization Bonds; or (ii) on a parity with and sharing ratably and equally in all or any portion of the Pledged Federal Subsidy Revenues with the Bonds; or (iii) on a parity with the Pledged Revenues as described in both clause (i) and clause (ii); as described in this Appendix B under the heading "ADDITIONAL BONDS PAYABLE FROM PLEDGED REVENUES"

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

"*Applicable Percentage*" means: (i) with respect to any amounts payable from Pledged Federal Subsidy Revenues, a fraction (x) the numerator of which is the then-applicable Pledged Federal Subsidy Revenues Sub-Account Requirement and (y) the denominator of which is the then- applicable Pledged Revenues Account Requirement, in each case determined without reference to any increase or decrease payable in connection with a Swap Agreement; and (ii) with respect to any amounts payable from Pledged State Aid Revenues, a fraction (x) the numerator of which is the then-applicable Pledged State Aid Revenues Sub-Account Requirement and (y) the denominator of which is the then applicable Pledged Revenues Account Requirement, in each case determined without reference to any increase or decrease payable in connection with a Swap Agreement.

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

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

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

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

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

"*Bond Resolution*" means Resolution No. 09-0826-RS, adopted by the Board on August 26, 2009, authorizing the issuance of the Bonds.

"*Bonds*" means collectively the Series 2009E Bonds and the Series 2009F Bonds.

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

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

"*Capitalized Interest Deposit*" has the meaning set forth in the Indenture.

"*Carryover Balance*" has the meaning set forth in the Indenture.

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

"*Carryover Balance Sub-Account Transfer*" has the meaning set forth in the Indenture.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Code and Regulations*" means the Code and the regulations promulgated or proposed pursuant thereto as the same may be in effect from time to time.

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

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

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

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

"*Debt Service Fund*" means the Debt Service Fund established by the Indenture.

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

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

"*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 described in the Indenture.

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

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

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

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

"*Extraordinary Event*" has the meaning set forth in the Indenture.

"*Federal Subsidy Revenues*" means those payments to be received by the Board from the United States Department of the Treasury, pursuant to Section 6431 of the Code (and implementing regulations or other regulatory guidance promulgated by the Internal Revenue Service), in respect of the issuance by the Board of the Bonds as "Taxable Build America Bonds—Direct Payment."

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

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

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

"*Indenture*" means the Trust Indenture, dated as of September 1, 2009, by and between the Board and the Trustee, as from time to time amended and supplemented.

"*Interest Deposit Sub-Account*" means the sub-account of that name in the Pledged Revenues Account established by the Indenture, consisting of the Series 2009E Bonds Interest Deposit Sub-Account and the Series 2009F Bonds Interest Deposit Sub-Account.

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

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

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

(i) Government Obligations;

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

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

(iii) Senior debt obligations which at the time of purchase are rated "AAA" by Standard & Poor's Ratings Services ("*S&P*") and "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") issued by Fannie Mae or the Federal Home Loan Mortgage Corporation or 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 no less than "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

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

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

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

(viii) Pre-refunded Municipal Obligations; and

(ix) any Forward Supply Contract.

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

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

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

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

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

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

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

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

"*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 Federal Subsidy Revenues*" means that amount of the Federal Subsidy Revenues as shall provide for the payment of (i) the Pledged Federal Subsidy Revenues Sub-Account Requirement and (ii) any Applicable Percentage of Swap Payments.

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

"*Pledged Federal Subsidy Revenues Sub-Account Requirement*" means the amount determined for each Deposit Date, as shown on Schedule I; *provided, however*, that for any period of time during a Bond Year preceding any such Deposit Date 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 (i) 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 as set forth in any written notice delivered by the Board to the Trustee under the Indenture regarding such Swap Agreement; and (ii) multiplying such interest amount by the Applicable Percentage for such Deposit Date.

"*Pledged Federal Subsidy Revenues Sub-Account Transfer*" has the meaning set forth in the Indenture.

"*Pledged Revenues*" means, collectively, the Pledged Federal Subsidy Revenues and the Pledged State Aid Revenues.

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

"*Pledged Revenues Account Requirement*" means, determined on each Deposit Date, an amount which will cause the amount on deposit in the Pledged Revenues 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 preceding 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 as set forth in any 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 State Aid Revenues Deposit Requirement*" has the meaning set forth in the Indenture.

"*Pledged State Aid Revenues*" means that amount of the State Aid Revenues, not in excess of $225,000,000 in any year, as shall provide for the payment of (i) the Pledged State Aid Revenues Sub-Account Requirement and the Prior 2008 Authorization Bonds and the provision of not less than an additional 0.10 times such amounts in such year, (ii) the provision of 0.25 times the Pledged Federal Subsidy Revenues Sub-Account Requirement and (iii) any Applicable Percentage of Swap Payments.

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

"*Pledged State Aid Revenues Sub-Account Requirement*" means the amount determined for each Deposit Date, as shown on Schedule I; *provided; however*, that for any period of time during a Bond Year preceding any such Deposit Date 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 (i) 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 as set forth in any written notice delivered by the Board to the Trustee under the Indenture regarding such Swap Agreement; and (ii) multiplying such interest amount by the Applicable Percentage for such Deposit Date.

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

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

"*Pre-refunded Municipal Obligations*" means any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "*Escrow*"), in the highest rating category of S&P and Moody's or any successors thereto; or

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

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

"*Prior 2008 Authorization Bonds*" means collectively the Series 2008A Bonds, the Series 2008B Bonds, the Series 2008C Bonds and the Series 2009A Bonds.

"*Prior 2008 Authorization Indentures*" means collectively the Series 2008A Indenture, the Series 2008B Indenture, the Series 2008C Indenture and the Series 2009A Indenture.

"*Project*" means the construction, acquisition and equipping of school and administrative buildings, site improvements and other real and personal property in and for the School District, all in accordance with the estimate of cost, including the Board's Capital Improvement Program, as heretofore approved and from time to time amended by the Board.

"*Project Costs*" means the cost of acquisition, construction and equipping of the Project, including the cost of acquisition of all land, rights of way, property, rights, easements and interests, acquired by the Board for such construction, the cost of demolishing or removing any buildings or structures on land so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved, the cost of all machinery and equipment determined to be necessary and desirable by the Board, the costs of issuance of the Bonds, financing charges, financial advisory fees, consultant fees, interest prior to and during construction and, as permitted under the Code and Regulations for such period after completion of construction as the Board shall determine, the cost of engineering and legal expenses, plans, specifications, estimates of cost and revenues, other expenses necessary or incident to determining the feasibility or practicability of constructing any portion of the Project, administrative expenses and such other costs, expenses and funding as may be necessary or incident to the construction of the Project, the financing of such construction and the placing of the Project in operation.

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

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

"*Redemption Price*" means, with respect to any bond, the amount payable upon the date fixed for redemption.

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

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

"*Series 2008A Bonds*" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A, of the Board.

"*Series 2008A Indenture*" means the Trust Indenture, dated as of May 1, 2008, between the Board and Amalgamated Bank of Chicago, Chicago, Illinois, as trustee, providing for the issuance of the Series 2008A Bonds.

"*Series 2008B Bonds*" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B, of the Board.

"*Series 2008B Indenture*" means the Trust Indenture, dated as of May 1, 2008, between the Board and Deutsche Bank National Trust Company, Chicago, Illinois, as trustee, providing for the issuance of the Series 2008B Bonds.

"*Series 2008C Bonds*" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C, of the Board.

"*Series 2008C Indenture*" means the Trust Indenture, dated as of May 1, 2008, between the Board and the Bank of New York Trust Company, N.A., Chicago, Illinois, as trustee, providing for the issuance of the Series 2008C Bonds.

"*Series 2009A Bonds*" means the Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A, of the Board.

"*Series 2009A Indenture*" means the Trust Indenture, dated as of March 1, 2009, between the Board and the Bank of New York Mellon Trust Company, N.A., Chicago, Illinois, as trustee, providing for the issuance of the Series 2009A Bonds.

"*Series 2009E Bonds*" means the Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009E (Taxable Build America Bonds "Direct Payment"), of the Board.

"*Series 2009E Bonds Project Fund*" means the Series 2009E Bonds Project Fund established in the Indenture.

"*Series 2009F Bonds*" means the Tax-Exempt Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009F, of the Board.

"*Series 2009F Bonds Project Fund*" means the Series 2009F Bonds Project Fund established in the Indenture.

"*SLG's*" 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 between the Board and a counterparty, the purpose of which is to provide to the Board an interest rate basis, cash flow basis or other basis different from that provided in the Bonds for the payment of interest.

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

"*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 the Indenture.

"*Swap Provider*" means any counterparty to a Swap Agreement.

"*Tax Agreement*" means the Tax Exemption Agreement and Certificate, dated the date of issuance of the Bonds, executed by the Board and the Trustee.

"*Trustee*" means U.S. Bank National Association, Chicago, Illinois, and any successor or successors appointed under the Indenture as thereinafter provided. The "principal corporate trust office" of the Trustee means 60 Livingston Avenue, St. Paul, Minnesota 55107, or such other address as is provided by the Trustee.

"*Trust Estate*" means the Pledged Revenues, the Pledged Taxes and all other property pledged to the Trustee pursuant to the Indenture.

"*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.

"*Year*" or "*year*" means a calendar year.

PLEDGE OF TRUST ESTATE

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

(a) The Pledged Revenues and the Pledged Taxes; provided that the pledge of the Pledged State Aid Revenues to the Bonds is on a parity with the pledge of such revenues to the payment of the Prior 2008 Authorization Bonds, which constitutes a series of Alternate Bonds of the Board issued pursuant to the Act.

(b) All moneys and securities and earnings thereon in all Funds, Accounts and Sub-Accounts established pursuant to the Indenture.

(c) Any and all other moneys, securities and property furnished from time to time to the Trustee by the Board or on behalf of the Board or by any other persons to be held by the Trustee under the terms of the Indenture.

Pursuant to Section 13 of the Act, the moneys, securities and properties pledged under the Indenture and received by the Board, shall immediately be subject to the lien and pledge of the Indenture without any physical delivery or further act, and the lien and pledge of the Indenture shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Board, irrespective of whether such parties have notice of the lien and pledge.

THE BONDS ARE GENERAL OBLIGATIONS

The Bonds are at all times Outstanding the general obligation of the Board, for the payment of which its full faith and credit are pledged, and are payable, in addition to the Pledged State Aid Revenues, from the levy of Pledged Taxes, as described in the Indenture. The Bonds do not represent or constitute a debt of the Board within the meaning of any constitutional or any statutory limitation unless the Pledged Taxes have been extended for collection, in which case the Outstanding Bonds to the extent required by law will be included in the computation of indebtedness of the Board for purposes of all statutory provisions or limitations until such time as an audit of the Board shows that the Bonds have been paid from the Pledged Revenues for a complete fiscal year of the Board.

ADDITIONAL BONDS PAYABLE FROM PLEDGED REVENUES

Except as provided in the Indenture, the Board will not issue any bonds or other evidences of indebtedness other than the Bonds, which are secured by a pledge of or lien on the Pledged Revenues, the Pledged Taxes or the moneys, securities or funds held or set aside by the Board or by the Trustee under the Indenture, and shall not, except as expressly authorized in the Indenture, create or cause to be created any lien or charge on the Pledged Revenues, the Pledged Taxes or such moneys, securities or funds. The Board reserves the right to issue Additional Bonds from time to time payable from (i) 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 Bonds and the Prior 2008 Authorization Bonds; and (ii) all or any portion of the Pledged Federal Subsidy 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 Federal Subsidy Revenues with the 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.

PROVISIONS REGARDING PAYMENT OF BONDS

The principal and Redemption Price of the Bonds is payable at the designated principal corporate trust office of the Trustee, as Paying Agent, and at such offices of any co-Paying Agent or successor Paying Agent or Paying Agents appointed for the Bonds pursuant to the Indenture. Interest on the Bonds is payable by check or bank draft mailed or delivered by the Trustee to the Owners as the same appear on the registration books of the Board maintained by the Registrar as of the close of business on the Record Date or, at the option of any Owner of $1,000,000 or more in aggregate principal amount of Bonds, by wire transfer of Current Funds to such bank in the continental United States as said Owner shall request in writing to the Registrar no later than the Record Date. The Bonds are payable, with respect to interest, principal, redemption premium (if any) in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

PROVISIONS REGARDING TRANSFER AND EXCHANGE OF BONDS

Subject to the operation of the global book-entry only system described in the body of this Official Statement, the following provisions apply to the transfer and exchange of Bonds under the Indenture. Each Bond is transferable, as provided in the Indenture, only upon the registration books of the Board maintained by the Registrar, by the 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, and thereupon a new registered Bond or Bonds, in the same aggregate principal amount and maturity, shall be issued to the transferee. The Board, the Trustee, the Registrar and any Paying Agent may deem and treat the person in whose name a Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or redemption price thereof and interest due thereon and for all other purposes. The Bonds are issuable in the form of fully registered bonds in the denomination of $5,000 or any integral multiple thereof. Subject to the conditions and upon the payment of the charges provided in the Indenture, Bonds may be surrendered (accompanied by a written instrument of transfer satisfactory to the Registrar duly executed by the Owner or its duly authorized attorney) in exchange for an equal aggregate principal amount of Bonds of the same maturity of any other authorized denominations. The Registrar shall not be required to make any registration, transfer or exchange of any Bond after such Bond has been called for redemption or, in the case of any proposed redemption of Bonds, during the 15 days next preceding the date of first giving of notice of such redemption.

ESTABLISHMENT AND APPLICATION OF SERIES 2009E BONDS PROJECT FUND

The Series 2009E Bonds Project Fund is established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture. Moneys on deposit in the Series 2009E Bonds Project Fund will be paid out from time to time by the Trustee to or upon the order of the Board in order to provide for the payment or to reimburse the Board for the payment of Project Costs upon receipt by the Trustee of a certificate of an Authorized Officer of the Board describing the Project Costs to be paid or reimbursed with such moneys and stating that:

(i) the costs of an aggregate amount set forth in such certificate are necessary and appropriate Project Costs that (A) have been incurred and paid or (B) are expected to be paid within the next 60 days;

(ii) the amount to be paid or reimbursed to the Board, as set forth in such certificate, is reasonable and represents a part of the amount payable for the Project Costs and that such payment is to be made or, in the case of reimbursement to the Board, was made, in accordance with the terms of any applicable contracts and in accordance with usual and customary practice under existing conditions;

(iii) no part of the Project Costs that are the subject of such certificate was included in any certificate previously filed with the Trustee under the provisions of the Indenture; and

(iv) the use of the money so withdrawn from the Series 2009E Bonds Project Fund and the use of the facilities provided with such moneys will not result in a violation of any applicable covenant, term or provision of the Tax Agreement.

Moneys in the Series 2009E Bonds Project Fund will be invested at the written direction of a Designated Official to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay Project Costs or such other costs as may be required to be paid from such moneys. The Board may, and to the extent required for payments from the Series 2009E Bonds Project Fund will, direct the Trustee to sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, will be held in the Series 2009E Bonds Project Fund. Earnings received on moneys or securities in the Series 2009E Bonds Project Fund will be retained therein and applied to the purposes for which moneys in the Series 2009E Bonds Project Fund are otherwise held.

The completion, substantial completion or abandonment of the Project is to be evidenced by a certificate of an Authorized Officer, which is to be filed promptly with the Trustee, stating the date of such completion, anticipated completion, abandonment or reduction in scope and the amount, if any, required in the opinion of the signer of such certificate for the payment of any remaining part of the Project Costs. Upon the filing of such certificate, the balance in the Series 2009E Bonds Project Fund in excess of the amount, if any, stated in such certificate of the Board as necessary to complete the Project will be deposited into such accounts of the Debt Service Fund as may be directed in such certificate.

ESTABLISHMENT AND APPLICATION OF SERIES 2009F BONDS PROJECT FUND

The Series 2009F Bonds Project Fund is established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture. Moneys on deposit in the Series 2009F Bonds Project Fund will be paid out from time to time by the Trustee to or upon the order of the Board in order to provide for the payment or to reimburse the Board for the payment of Project Costs upon receipt by the Trustee of a certificate of an Authorized Officer of the Board describing the Project Costs to be paid or reimbursed with such moneys and stating that:

(i) the costs of an aggregate amount set forth in such certificate are necessary and appropriate Project Costs that (A) have been incurred and paid or (B) are expected to be paid within the next 60 days;

(ii) the amount to be paid or reimbursed to the Board, as set forth in such certificate, is reasonable and represents a part of the amount payable for the Project Costs and that such payment is to be made or, in the case of reimbursement to the Board, was made, in accordance with the terms of any applicable contracts and in accordance with usual and customary practice under existing conditions;

(iii) no part of the Project Costs that are the subject of such certificate was included in any certificate previously filed with the Trustee under the provisions of the Indenture; and

(iv) the use of the money so withdrawn from the Series 2009F Bonds Project Fund and the use of the facilities provided with such moneys will not result in a violation of any applicable covenant, term or provision of the Tax Agreement.

Moneys in the Series 2009F Bonds Project Fund will be invested at the written direction of a Designated Official to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay Project Costs or such other costs as may be required to be paid from such moneys. The Board may, and to the extent required for payments from the Series 2009F Bonds Project Fund will, direct the Trustee to sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, will be held in the Series 2009F Bonds Project Fund. Earnings received on moneys or securities in the Series 2009F Bonds Project Fund will be retained therein and applied to the purposes for which moneys in the Series 2009F Bonds Project Fund are otherwise held.

The completion, substantial completion or abandonment of the Project is to be evidenced by a certificate of an Authorized Officer, which is to be filed promptly with the Trustee, stating the date of such completion, anticipated completion, abandonment or reduction in scope and the amount, if any, required in the opinion of the signer of such certificate for the payment of any remaining part of the Project Costs. Upon the filing of such certificate, the balance in the Series 2009F Bonds Project Fund in excess of the amount, if any, stated in such certificate of the Board as necessary to complete the Project will be deposited into such accounts of the Debt Service Fund as may be directed in such certificate.

ESTABLISHMENT AND APPLICATION OF DEBT SERVICE FUND AND ACCOUNTS

The Debt Service Fund and the following accounts within the Debt Service Fund are established under the Indenture with the Trustee to be held and applied in accordance with the terms and provisions of the Indenture: (i) Pledged Revenues Account, consisting of (a) the Interest Deposit Sub-Account, (b) the Pledged State Aid Revenues Sub-Account, (c) the Carryover Balance Sub-Account, and (d) the Pledged Federal Subsidy Revenues Sub-Account; (ii) Pledged Taxes Account; (iii) Bond Payment Account, consisting of the Interest Sub-Account and the Principal Sub-Account; and (iv) Swap Payment Account.

Pledged Revenues Account. The Trustee shall deposit to the credit of the Interest Deposit Sub-Account an amount of capitalized interest to be applied to the interest coming due on June 1 and December 1 of 2010 and an amount of capitalized interest to be applied to the interest coming due on June 1 and December 1 of 2011. The Trustee shall also deposit to the credit of the Interest Deposit Sub-Account: (i) any amounts paid by the Board to the Trustee from time to time with instructions for such deposit; and (ii) any payments made by Swap Providers, if any, under Swap Agreements to the extent set forth in a certificate of a Designated Official filed with the Trustee. The Board is not entering into an interest rate swap agreement in connection with the issuance of the Bonds. All or the applicable portion of each annual capitalized interest amount described above and any payments made by Swap Providers 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.

On or before February 16 of each year, whenever sufficient funds are on deposit in the Pledged Revenues Account, plus the amount of the most recent Carryover Balance Sub-Account Transfer and Pledged Federal Subsidy Revenues Sub-Account Transfer (as described below), in an amount equal to the Pledged 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.

All Federal Subsidy Revenues received from the United States Department of the Treasury shall be deposited into the Pledged Federal Subsidy Revenues Sub-Account. The Trustee shall file with the Internal Revenue Service all required documentation and certifications to direct that the Federal Subsidy Revenues shall be paid directly to the Trustee as agent of the Board. On December 31 of each Year, the Trustee shall transfer from the Pledged Federal Subsidy Revenues Sub-Account to the Interest Sub-Account of the Bond Payment Account all amounts deposited into the Pledged Federal Subsidy Revenues Sub-Account during such Year (the "*Pledged Federal Subsidy Revenues Sub-Account Transfer*").

On February 15, 2010, the Board shall deposit Pledged State Aid Revenues in the amount of $854,916 into the Carryover Balance Sub-Account. On December 31 of each year, beginning December 31, 2011, the Trustee shall, immediately prior to making the Pledged Federal Subsidy Revenues Sub-Account Transfer described in the preceding paragraph, transfer the amount on deposit in the Carryover Balance Sub-Account into the Interest Sub-Account of the Bond Payment Account (the "*Carryover Balance Sub-Account Transfer*").

On or prior to each Deposit Date, the Board shall deposit to the credit of the Pledged State Aid Revenues Sub-Account such amounts derived from Pledged State Aid Revenues as shall be necessary and sufficient to cause the amount on deposit in said Sub-Account to equal the Pledged State Aid Revenues Deposit Requirement set forth in the Indenture. When the amount of the Pledged State Aid Revenues Deposit Requirement, plus the amount of the most recent Carryover Balance Sub-Account Transfer and Pledged Federal Subsidy Revenues Sub-Account Transfer, is at least equal to the then-applicable Pledged Revenues Requirement, the Board shall, pursuant to the Indenture, take such actions as are necessary to abate in full the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date. The Board shall make the deposits required pursuant to this paragraph on such earlier date as may be necessary in the future to permit the Board to make the abatement of taxes described in the preceding sentence.

In the event that on any Deposit Date there has been deposited to the credit of the Pledged Revenues Account, plus the amount of the most recent Carryover Balance Sub-Account Transfer and Pledged Federal Subsidy Revenues Sub-Account Transfer, an insufficient amount to satisfy in full the then applicable Pledged Revenues Account Requirement, the Board is required to, pursuant to the Indenture, take such actions as are necessary to cause the extension of the Pledged Taxes levied for the calendar year next preceding the calendar year of such Deposit Date in an amount sufficient, when added to the amount then on deposit in the Pledged Revenues Account, to provide funds sufficient to satisfy such Pledged Revenues Account Requirement.

On December 1 of each Year, but commencing in 2012 with respect to the transfer described in clause (i) below, following the transfers required to be made to the Bond Payment Account as described below and the Swap Payment Account pursuant to the Indenture, the following transfers and withdrawals shall be made: (i) an amount equal to the Carryover Balance (as defined below) shall be transferred from the Pledged State Aid Revenues Sub-Account to the Carryover Balance Sub-Account; (ii) all remaining amounts on deposit in the Pledged State Aid Revenues Sub-Account and in the Swap Payment Account shall be withdrawn from such Sub-Accounts and paid to the Board free and clear of the lien of the Indenture, which withdrawals shall be made prior to any deposits to the Pledged State Aid Revenues Sub-Account pursuant to this paragraph. The Carryover Balance determined on December 1 of each Year shall equal the sum of the Pledged State Aid Revenues Deposit Requirement for that Year plus the amount of the most recent Carryover Balance Sub-Account Transfer minus the Pledged State Aid Revenues Sub-Account Requirement for that Year.

Pledged Taxes Account. The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. All Pledged Taxes received by the Trustee are required to be deposited promptly upon receipt into the Pledged Taxes Account and applied to the payment of the interest on and principal of the Bonds due during the Year in which said Pledged Taxes are collected. All amounts remaining in the Pledged Taxes Account on December 2 of any Year shall be transferred to the Board and the Board shall deposit such moneys into the Educational Fund of the Board and apply such moneys to the abatement of the first Educational Fund tax levy for which the County Clerks will accept an abatement.

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

There shall be transferred *first* from moneys on deposit in the Pledged Taxes Account, *second* from moneys on deposit in the Interest Deposit Sub-Account of the Pledged Revenues Account, and *third* from moneys on deposit in the Pledged State Aid Revenues Sub-Account (i) first, to the Interest Sub-Account on or before each Interest Payment Date for any of the Outstanding Bonds, the amount required for the interest payable on such date, less the amount then on deposit in the Interest Sub-Account and available for such payment; (ii) second, to the Principal Sub-Account on or before each December 1 an amount equal to the principal amount of the Outstanding Bonds, if any, which mature on the next December 1, less the amount then on deposit in the Principal Sub-Account and available for such payment and (iii) third, to the Principal Sub-Account on or prior to December 1, on which Bonds are subject to mandatory sinking fund redemption pursuant to the Indenture, the amount required for the payment of the Redemption Price of such Bonds then to be redeemed. The Trustee shall pay to the respective Paying Agents in immediately available funds on or before each date on which interest or principal is due on the Bonds the respective amounts on deposit in the Interest Sub-Account and the Principal Sub-Account described in clauses (i), (ii) and (iii) above necessary to pay such debt service. Such amounts shall be paid to the Owners of the Outstanding Bonds by the Paying Agents for the aforesaid purposes on the due dates thereof.

All interest or other investment earnings earned on the amounts on deposit in the Interest Deposit Sub-Account of the Pledged Revenues Account shall be transferred to the Series 2009F Bonds Project Fund and the Series 2009F Bonds Project Fund and used to pay Project Costs.

Swap Payment Account. After deducting the amount then required to be transferred to the Principal Sub-Account and provided the Board is not in default with respect to the payment of interest on the Bonds, there shall be transferred into the Swap Payment Account on each June 1 and December 1, or such other dates specified in the relevant Swap Agreements which the Board shall identify in a written notice delivered to the Trustee (each, a "Swap Payment Date"), *first* from moneys on deposit in the Pledged Taxes Account, *second* from moneys on deposit in the Interest Deposit Sub-Account, and *third* pro rata (and calculated in accordance with the respective Applicable Percentages) from the moneys on deposit in the Pledged Federal Subsidy Revenues Sub-Account and the Pledged State Aid Revenues Sub-Account, an amount equal to the sum of the Swap Payment then owing under such Swap Agreement on such Swap Payment Date. The Trustee shall pay each Swap Provider on each Swap Payment Date from amounts then on deposit in the Swap Payment Account pursuant to payment instructions specified in the relevant Swap Agreements and provided to the Trustee and the Board by such Swap Provider. On or prior to December 1, 2009 and each December 1 thereafter, the Board shall provide the Trustee with written notice of the amount of each Swap Payment owing to such Swap Provider on each Swap Payment Date for the succeeding Bond Year. The Board shall promptly notify the Trustee in writing if the amount of any Swap Payments shall change from the amounts identified in such notice. Notwithstanding anything in this Indenture to the contrary, all payments of Swap Payments to be paid from Pledged Taxes shall be subordinate to the payment of principal of and interest on the Bonds and all payments of Swap Payments to be paid from Pledged Revenues shall be subordinate to the payment of principal of and interest on the Bonds, the Prior 2008 Authorization Bonds and any Additional Bonds and all payments of Swap Payments to be paid from Pledged Federal Subsidy Revenues shall be subordinate to the payment of principal of and interest on the Bonds and any Additional Bonds.

Deficiencies. If on any Interest Payment Date the amount held in the Interest Sub-Account is less than the interest payable on the Outstanding Bonds on such Interest Payment Date, then the Board shall immediately pay over to the Trustee for deposit to the credit of the Interest Deposit Sub-Account, the sum required to cure such deficiency. If on any December 1, the amount held in the Principal Sub-Account is less than the sum of the principal amount of the Outstanding Bonds which mature on that December 1 and the amount required to pay the Redemption Price of Outstanding Bonds required to be redeemed on that December 1 by the application of sinking fund installments pursuant to the Indenture, then the Board shall immediately pay over to the Trustee for deposit to the credit of the Principal Sub-Account, the sum required to cure such deficiency. If on any Swap Payment Date the amount held in the Swap Payment Account is less than the Swap Payments then owing under the Swap Agreements, then the Board shall immediately pay over to the Trustee for deposit to the credit Swap Payment Account, the sum required to cure such deficiency.

PURCHASE OF TERM BONDS FOR CANCELLATION

On or before the 60th day next preceding any mandatory sinking fund redemption date for the Series 2009E Bonds, at the written direction of the Chief Financial Officer of the Board, moneys held in the Pledged Revenues Account or the Pledged Taxes Account for the mandatory sinking fund redemption of Series 2009E Bonds on such date may be applied to the purchase of Series 2009E Bonds of the maturity subject to mandatory sinking fund redemption on such date in a principal amount not exceeding the principal amount of Series 2009E Bonds subject to mandatory redemption on such date. Series 2009E Bonds so purchased shall be delivered to the Trustee and canceled. Each such Series 2009E Bond or portion thereof so purchased, delivered and canceled shall be credited against the mandatory sinking fund redemption obligation of the Board on such date.

The purchase price paid by the Trustee (excluding accrued interest but including any brokerage or other changes) for any Series 2009E Bond shall not exceed the principal amount of the Series 2009E Bond and shall be paid first from the Pledged Taxes Account, to the extent of any amount then held therein, and then from the Pledged Revenues Account.

Subject to the limitations set forth in this Section, the provisions of any Forward Supply Contract relating to the investment of moneys in the Debt Service Fund, and to the further requirement that no Bond may be purchased during any period in which the aggregate sum held in the Debt Service Fund is less than the principal of and interest on the Bonds to become due on or prior to the next December 1, the Trustee shall purchase Series 2009E Bonds at such times, for such prices, in such amounts and in such manner (whether after advertisement for tenders or otherwise) as directed by the Chief Financial Officer of the Board

INVESTMENT OF FUNDS

INVESTMENT OF CERTAIN MONEYS

Moneys held in the several Accounts and Sub-Accounts of the Debt Service Fund, the Series 2009E Bonds Project Fund and the Series 2009F Bonds Project Fund will be invested and reinvested by the Trustee at the 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. The Trustee may make any and all such investments through its trust department or the bond department of any bank (including the Trustee) or trust company under common control with the Trustee. All such investments made under the Indenture must be consistent with the expectations expressed in the Tax Agreement.

VALUATION AND SALE OF INVESTMENTS

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

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

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

SWAP AGREEMENTS

With respect to the Bonds, the Board may enter into one or more of the agreements authorized by Section 7 of the Bond Authorization Act of the State of Illinois. The Board may designate any such agreement as a Swap Agreement by filing with the Trustee (i) an executed counterpart of such agreement and (ii) a written notice that such agreement has been designated as a Swap Agreement for the purposes of the Indenture. Each Swap Payment under a Swap Agreement shall be payable from the Swap Payment Account. The stated notional amount under all such Swap Agreements shall not in the aggregate exceed the then outstanding principal amount of the Bonds (net of offsetting Swap Agreements). Each Swap Agreement shall satisfy the following conditions precedent: (i) each Rating Service (if such Rating Service also rates the unsecured obligations of the proposed Swap Provider or any person who guarantees the obligations of the Swap Provider under the Swap Agreement) shall have assigned the unsecured obligations of the Swap Provider or such guarantor, as of the date the Swap Agreement is entered into, a rating that is equal or higher than the rating then assigned to the Outstanding Bonds by such Rating Service, and (ii) the Board shall have notified each Rating Service (whether or not such Rating Service also rates the unsecured obligations of the Swap Provider or its guarantor, if any, under the Swap Agreement) in writing, at least fifteen days prior to executing and delivering the Swap Agreement of its intention to enter into the Swap Agreement and has received from such Rating Service a written indication that the entering into the Swap Agreement by the Board will not in and of itself cause a reduction or withdrawal by such Rating Service of its unenhanced rating on the Outstanding Bonds.

PARTICULAR COVENANTS AND REPRESENTATIONS OF THE BOARD

COVENANTS REGARDING PLEDGED REVENUES

Pursuant to Section 15(e) of the Act, the Board covenants under the Indenture, so long as there are any Outstanding Bonds, to provide for, collect and apply (a) the Pledged State Aid Revenues (i) to the payment of the Pledged State Aid Revenues Sub-Account Requirement and the provision of not less than an additional 0.10 times such amount and (ii) to the payment of 0.25 times the Pledged Federal Subsidy Revenues Sub-Account Requirement; and (b) the Pledged Federal Subsidy Revenues to the payment of the Pledged Federal Subsidy Revenues Sub-Account Requirement. The Board will comply with all present and future applicable laws in order to assure that the Pledged Revenues may be allocated and paid to the Board for application as provided in the Indenture.

COVENANTS REGARDING PLEDGED TAXES

The Board has directed the County Collectors to deposit all collections of the Pledged Taxes, if and when extended for collection, directly with the Trustee for application in accordance with the provisions of the Indenture. So long as any of the Bonds remain Outstanding, the Board will not modify or amend such direction, except for such modifications or amendments as may be necessitated by changes in State law or procedures or rules, regulations or procedures there under with respect to the collection and distribution of ad valorem property taxes; provided, that no such modification or amendment shall provide for the deposit with the Trustee of less than all of the Pledged Taxes to be collected in any Year.

As described in the Official Statement under the heading "SECURITY FOR THE BONDS -- Pledged Taxes," the Board will direct the abatement of the Pledged Taxes in whole or in part as described therein, and proper notification of any such abatement will be filed with (i) the County Clerks, in a timely manner to effect such abatement and (ii) the County Collectors, so as to advise such officers of the amount of the Pledged Taxes to be extended for the relevant levy year.

So long as there are any Outstanding Bonds, the Board and its officers will comply with all present and future applicable laws in order to assure that the Pledged Taxes may be levied and extended and collected and deposited to the Pledged Taxes Account as described above.

In furtherance of the general obligation, full faith and credit promise of the Board to pay the principal and Redemption Price of and interest on the Bonds, and in furtherance of the covenant of the Board to pay the Swap Payments, the Board will take all actions necessary to (i) cause the levy and extension of the Pledged Taxes for collection on a timely basis to make all such payments and (ii) to cause such Pledged Taxes when extended for collection to be deposited directly with the Trustee for application pursuant to the Indenture.

INDEBTEDNESS AND LIENS

The Board will not issue any bonds or other evidences of indebtedness, other than the Bonds and the Prior 2008 Authorization Bonds and any Additional Bonds, which are secured by a pledge of or lien on the Pledged State Aid Revenues, the Pledged Federal Subsidy 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 provided in the Indenture, create or cause to be created any lien or charge on the Pledged State Aid Revenues, the Pledged Federal Subsidy Revenues, the Pledged Taxes or such moneys, securities or funds.

ACCOUNTS AND REPORTS

The Board will keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Pledged Revenues, the Pledged Taxes and the Funds, Accounts and Sub-Accounts established by the Indenture, and which, together with all other books and financial records of the Board, 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 Bonds or their representatives duly authorized in writing.

TAX COVENANTS

The Board shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause any Series 2009E Bond to no longer qualify as a Build America Bond. The Board shall not take, or omit to take, any action lawful and within its power to take, which action or omission would cause interest on any Series 2009F Bond to become subject to federal income taxes in addition to federal income taxes to which interest on such Series 2009F Bond is subject on the date of original issuance thereof.

The Board shall not permit any of the proceeds of the Bonds, or any facilities finance with such proceeds, to be used in any manner that would cause any Bond to constitute a “private activity bond” within the meaning of Section 141 of the Code. The Board shall not permit any of the proceeds of the Bonds or other moneys to be invested in any manner that would cause any Bond to constitute an “arbitrage bond” within the meaning of Section 148 of the Code or a “hedge bond” within the meaning of Section 149(g) of the Code. The Board shall comply with the provisions of Section 148(f) of the Code relating to the rebate of certain investment earnings at periodic intervals to the United States of America.

EVENTS OF DEFAULT AND REMEDIES

EVENTS OF DEFAULT

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

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

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

(3) if a default occurs in the performance or observance by the Board of any other of the covenants, agreements or conditions contained in the Indenture or in the Bonds, and such default continues for a period of 60 days after written notice thereof to the Board by the Trustee or after written notice thereof to the Board and to the Trustee by the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds, 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.

PROCEEDINGS BROUGHT BY TRUSTEE

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

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

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

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

APPLICATION OF TRUST ESTATE AND OTHER MONEYS ON DEFAULT

During the continuance of an Event of Default, the Trustee will apply all moneys, securities, funds, Pledged Revenues and Pledged Taxes and the income therefrom (other than (i) any amounts not constituting part of the Trust Estate) as follows and in the following order:

(1) to the payment of the reasonable and proper charges and expenses of the Trustee, including the reasonable fees and expenses of counsel employed by it; and

(2) to the payment of the principal of, Redemption Price and interest on the Bonds then due, as follows:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

SECOND: to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

If and whenever all overdue installments of principal and Redemption Price of and interest on all Bonds, together with the reasonable and proper charges and expenses of the Trustee, and all other overdue sums payable by the Board under the Indenture, including the overdue principal and Redemption Price of and accrued unpaid interest on all Bonds held by or for the account of the Board, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Indenture or the Bonds are made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate is made therefore, the Trustee will pay over to the Board all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Indenture to be deposited or pledged, with the Trustee), and thereupon the Board, the Trustee and the Owners will be restored, respectively, to their former positions and rights under the Indenture. No such payment over to the Board by the Trustee nor such restoration of the Board and the Trustee to their former positions and rights will extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

RESTRICTIONS ON BONDHOLDERS' ACTIONS

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

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 Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on, or principal or Redemption Price of any of the Bonds when due. No such waiver will extend to any subsequent or other default or impair any right consequent thereon.

PROVISIONS RELATING TO TRUSTEE

RESIGNATION AND REMOVAL OF TRUSTEE

The Trustee may at any time resign and be discharged of the duties and obligations imposed upon it by the Indenture by giving not less than 60 days' written notice to the Board, all Owners of the Bonds and the other Fiduciaries, and such resignation will take effect upon the day specified in such notice but only if a successor will have been appointed by the Board or the Owners as provided below, in which event such resignation will take effect immediately on the 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 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 Bonds then Outstanding (excluding any Bonds held by or for the account of the Board). The Trustee may be removed at any time by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Board, by an instrument or concurrent instruments in writing signed and duly acknowledged by such Owners or their attorneys-in-fact duly authorized, and delivered to the Board.

APPOINTMENT OF SUCCESSOR TRUSTEE

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

If no appointment of a Trustee is made by the Board as described above, the Trustee or the Owner of any Outstanding Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any successor Trustee appointed under the provisions of the Indenture must be a bank or trust company or organized under the laws of any state of the United States or a national banking association, doing business and having its principal corporate trust office in the State of Illinois, and having capital and undivided surplus aggregating at least $15,000,000, or a wholly owned subsidiary of such an entity, if there be such a bank, trust company, national banking association or subsidiary willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture.

SUPPLEMENTAL INDENTURES

SUPPLEMENTAL INDENTURES NOT REQUIRING CONSENT OF OWNERS

The Board and the Trustee may without the consent of, or notice to, any of the Owners, enter into a Supplemental Indenture or Supplemental Indentures for any one or more of the following purposes:

(1) to impose additional covenants or agreements to be observed by the Board;

(2) to impose other limitations or restrictions upon the Board;

(3) to surrender any right, power or privilege reserved to or conferred upon the Board by the Indenture;

(4) to confirm, as further assurance, any pledge of or lien upon the Pledged Revenues, the Pledged Taxes or any other moneys, securities or funds;

(5) to make any necessary amendments to or to supplement the Indenture in connection with the issuance of Additional Bonds, as authorized in the Indenture;

(6) to cure any ambiguity, omission or defect in the Indenture;

(7) to provide for the appointment of a successor securities depository;

(8) to provide for the appointment of any successor Fiduciary; and

(9) to make any other change which, in the judgment of the Trustee, does not materially adversely affect the rights of the Trustee or the Owners.

SUPPLEMENTAL INDENTURES EFFECTIVE UPON CONSENT OF OWNERS

Any Supplemental Indenture not effective in accordance with the foregoing provisions 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 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 Supplemental Indenture; provided, however, that nothing in the Indenture permits or may be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the payment or redemption of any Bond, without the consent of the Owner of such Bond, or (b) except for the pledge of the Pledged State Aid Revenues in connection with the issuance of Additional Bonds, the creation of any lien prior to or on a parity with the lien of the Indenture, without the consent of the Owners of all the Bonds at the time Outstanding, or (c) a reduction in the aforesaid aggregate principal amount of Bonds, the Owners of which are required to consent to any such waiver or Supplemental Indenture, without the consent of the Owners of all the Bonds at the time Outstanding which would be affected by the action to be taken, (d) a modification of the rights, duties or immunities of the Trustee, without the written consent of the Trustee, or (e): (i) with respect to the Series 2009E Bonds, the loss of the qualification of such Bonds as Build America Bonds held by a non-consenting Owner; or (ii) with respect to the Series 2009F Bonds, the loss of the exclusion from federal gross income of the Owners of the interest paid on such 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 Bonds, and (ii) a Counsel's Opinion stating that the execution and delivery of such Supplemental Indenture has been duly authorized by the Board in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture and, when effective, will be valid and binding upon the Board and the Trustee and (b) a notice has been delivered as provided in the Indenture. Any such consent will be binding upon the Owner of the Bonds giving such consent and upon any subsequent Owner of such

Bonds and of any Bonds issued in exchange therefore whether or not such subsequent Owner has notice thereof, provided, however, that any consent may be revoked by any Owner of such Bonds by filing with the Trustee, prior to the time when the Trustee's written statement described below is filed, a written revocation, with proof that such Bonds are held by the signer of such revocation. The Trustee will give notice by mail to the Owners of the Bonds that the Supplemental Indenture has been consented to by the Owners of the required aggregate principal amount of Outstanding Bonds and will be effective (but failure to mail such notice or any defect therein will not prevent such Supplemental Indenture from becoming effective and binding).

The Indenture and the rights and obligations of the Board and of the Owners of the Bonds may be modified or amended in any respect by a Supplemental Indenture effecting such modification or amendment and with the consents of the Owners of all the Bonds then Outstanding, each such consent to be accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. Such Supplemental Indenture will take effect upon the filing (a) with the Trustee of (i) a copy thereof, (ii) such consents and accompanying proofs and (iii) the Counsel's Opinion referred to in the preceding paragraph and (b) with the Board of the Trustee's written statement that the consents of the Owners of all Outstanding Bonds have been filed with it. No mailing or publication of any Supplemental Indenture (or reference thereto or summary thereof) or of any request or notice will be required.

DEFEASANCE

If the Board pays or causes to be paid or there is otherwise paid to the Owners of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, 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 Bonds not previously surrendered for such payment or redemption. If the Board shall pay or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds of a particular maturity or portion of any maturity (which portion shall be selected by lot by the Trustee in the manner provided in the Indenture for the selection of Bonds to be redeemed in part), the principal or Redemption Price, if applicable, thereof and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Indenture, such Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and all covenants, agreements and obligations of the Board to the Owners of such Bonds and to the Trustee 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 Bonds so to be redeemed, (c) either moneys in an amount which will be sufficient, or Defeasance Obligations the principal of and the interest on which, in the opinion of a nationally recognized firm of independent public accountants, when due will provide moneys which will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to each specified redemption date or maturity date thereof, as the case may be, and (d) if any of said Bonds are not to be redeemed within the next succeeding 60 days, irrevocable instructions to mail to all Owners of said Bonds a notice that such deposit has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds.

The Defeasance Obligations (or any portion thereof) held for the payment of the principal and Redemption Price of and interest on said Bonds as described in the preceding paragraph may not be sold, redeemed, invested, reinvested or removed from the lien of the Indenture in any manner or other Defeasance Obligations substituted therefore (any such direction to sell, redeem, invest, reinvest, remove or substitute to be referred to as a "Subsequent Action") unless prior to the taking of such Subsequent Action, the Trustee shall have received the following: (i) either (a) a certified copy of the proceedings of the Board authorizing the Subsequent Action, or (b) an opinion of counsel for the Board to the effect that such Subsequent Action has been duly authorized by all necessary action on the part of the Board; (ii) an opinion from a nationally recognized firm of independent public accountants to the effect that the Defeasance Obligations and cash available or to be available for payment of the Bonds after the taking of the Subsequent Action will remain sufficient to pay, without any further reinvestment thereof, the principal and Redemption Price of and interest on said Bonds 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 (a) if such Bonds are Series 2009E Bonds, any qualification of the Bonds as Build America Bonds, or (b) if such Bonds are Series 2009F Bonds, any exemption from federal income tax of the interest paid on the Bonds to which such Bonds are otherwise entitled; and (iv) such other documents and showings as the Trustee may reasonably require.

APPENDIX C

Form of Opinions of Bond Counsel

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APPENDIX C

Form of Opinion of Bond Counsel for Series 2009E Bonds

[Letterhead of Bond Counsel]

[Closing Date]

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

Merrill Lynch, Pierce, Fenner & Smith,
Incorporated,
as Representative of the Underwriters
222 North LaSalle, 18th Floor
Chicago, IL 60601

U.S. Bank National Association,
as Trustee
209 South LaSalle Street, Suite 300
Chicago, IL 60604

Re: $518,210,000 Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds (Dedicated Revenues),
Series 2009E (Taxable Build America Bonds "Direct Payment")

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the "Board") of its $518,210,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009E (Taxable Build America Bonds "Direct Payment") (the "Series 2009E Bonds"). As Bond Counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Series 2009E Bonds. The Series 2009E Bonds are issued pursuant to a Trust Indenture dated as of September 1, 2009 (the "Indenture"), by and between the Board and U.S. Bank National Association, as trustee (the "Trustee"). The Series 2009E Bonds are issued pursuant to the authority 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 "Act"), resolutions adopted by the Board on February 27, 2008 (the "2008 Authorizing Resolution") and August 26, 2009 (the "Bond Resolution") and the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture, as applicable.

The Series 2009E Bonds are issued for the purpose of (i) acquiring and equipping school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the "School District") and (ii) paying certain costs of issuance of the Series 2009E Bonds.

The Series 2009E Bonds are dated the date hereof, are being issued in fully registered form, and mature on the dates set forth in the Indenture.

In our capacity as Bond Counsel, we have examined, among other things, the following:

(a) a certified copy of the proceedings of the Board adopting the 2008 Authorizing Resolution and the Bond Resolution which authorized among other things, the execution and delivery of the Indenture and the issuance of the Series 2009E Bonds;

(b) a certified copy of the 2008 Authorizing Resolution;

(c) a certified copy of the Bond Resolution;

(d) the backdoor referendum proceedings required by Section 15 of the Act and the notice and hearing requirements of the Bond Issue Notification Act of the State of Illinois;

(e) an executed counterpart of the Indenture;

(f) the Tax Agreement; and

(g) such other certifications, documents, showings and related matters of law as we have deemed necessary in order to render this opinion.

Based upon the foregoing we are of the opinion that:

1. The Board has full power and authority and has taken all necessary corporate action to authorize the execution and delivery of the Indenture.

2. The Indenture has been duly and lawfully executed and delivered by the Board and, assuming its due authorization, execution and delivery by, and its 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 Series 2009E Bonds have been duly and validly authorized and issued in accordance with law and the Indenture, and the Series 2009E Bonds, to the amount named, are valid and legally binding general obligations of the Board, enforceable in accordance with their terms and the terms of the Indenture.

5. The form of the Series 2009E Bond prescribed for said issue is in due form of law.

6. The Series 2009E Bonds are payable ratably and equally (i) together with the Board's Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A (the "Series 2008A Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B (the "Series 2008B Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C (the "Series 2008C Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A (the "Series 2009A Bonds") and Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009F being issued on the date hereof (the "Series 2009F Bonds") from the *"Pledged State Aid Revenues,"* being that amount of the State Aid Revenues, not in excess of $225,000,000 in any year, as shall provide for the payment of (a) the Pledged State Aid Revenues Sub-Account Requirement, the Series 2008A Bonds, the Series 2008B Bonds, the Series 2008C Bonds, the Series 2009A Bonds and the Series 2009F Bonds and the provision

of not less than an additional 0.10 times such amounts in such year, (b) the provision of 0.25 times the Pledged Federal Subsidy Revenues Sub-Account Requirement and (c) any Applicable Percentage of Swap Payments; (ii) from the *"Pledged Federal Subsidy Revenues,"* being that amount of the Federal Subsidy Revenues as shall provide for the payment of (a) the Pledged Federal Subsidy Revenues Sub-Account Requirement and (b) any Applicable Percentage of Swap Payments; and (iii) from the *"Pledged Taxes,"* being the ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Series 2009E Bonds and the Series 2009F Bonds. The Series 2009E 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. Under existing law, the Series 2009E Bonds constitute "build America bonds" as that term is defined in Section 54AA(d) of the Internal Revenue Code of 1986, as amended (the "Code"), that are also "qualified bonds" as that term is defined in Section 54AA(g) of the Code. The opinion set forth in the preceding sentence is subject to the conditions that (i) the Board comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Series 2009E Bonds in order that the Series 2009E Bonds are, or continue to be, Build America Bonds eligible for the credit payable to the Board set forth in Section 6431 of the Code and (ii) the Board comply with all certifications made in the Tax Agreement.

Interest on the Series 2009E Bonds is not excluded from the gross income of the owners thereof for federal income tax purposes. Ownership of the Series 2009E 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 2009E Bonds.

The opinions set forth in the two immediately preceding paragraphs are not intended or written by Bond Counsel to be used, and cannot be used by any person, for the purpose of avoiding tax penalties that may be imposed under U.S. tax laws. Such opinions are provided to support an offering of the Series 2009E Bonds, and accordingly are written in support of the promotion or marketing of the Series 2009E Bonds. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor concerning the potential tax consequences of an investment in the Series 2009E Bonds.

9. Interest on the Series 2009E Bonds is not exempt from State of Illinois income taxes.

The rights of the owners of the Series 2009E Bonds and the enforceability of provisions of the Series 2009E Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Series 2009E Bonds and the Indenture by an equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

In rendering this opinion, we have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities financed with the Series 2009E Bonds, the application of proceeds of the Series 2009E Bonds and certain other matters pertinent to the status of the Series 2009E Bonds.

This opinion is based upon laws, regulations, rulings and decisions in effect on the date hereof. We assume no responsibility for updating this opinion to taken 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,

Form of Opinion of Bond Counsel for Series 2009F Bonds

[Letterhead of Bond Counsel]

[Closing Date]

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

Merrill Lynch, Pierce, Fenner & Smith
Incorporated,
as Representative of the Underwriters
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Chicago, IL 60601

U.S. Bank National Association,
as Trustee
209 South LaSalle Street, Suite 300
Chicago, IL 60604

Re: $29,125,000 Board of Education of the City of Chicago
Unlimited Tax General Obligation Bonds (Dedicated Revenues),
Series 2009F

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Board of Education of the City of Chicago (the "Board") of its $29,125,000 aggregate principal amount Unlimited Tax General Obligation Bonds (Dedicated Revenues), Series 2009F (the "Series 2009F Bonds"). As Bond Counsel, we have examined a certified copy of the record of proceedings of the Board, together with various accompanying certificates, pertaining to the issuance by the Board of the Series 2009F Bonds. The Series 2009F Bonds are issued pursuant to a Trust Indenture dated as of September 1, 2009 (the "Indenture"), by and between the Board and U.S. Bank National Association, as trustee (the "Trustee"). The Series 2009F Bonds are issued pursuant to the authority 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 "Act"), resolutions adopted by the Board on February 27, 2008 (the "2008 Authorizing Resolution") and August 26, 2009 (the "Bond Resolution") and the Indenture. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Indenture, as applicable.

The Series 2009F Bonds are issued for the purpose of (i) acquiring and equipping school and administrative buildings, site improvements and other real and personal property in and for the school district governed by the Board (the "School District") and (ii) paying certain costs of issuance of the Series 2009F Bonds.

The Series 2009F Bonds are dated the date hereof, are being issued in fully registered form, and mature on the dates set forth in the Indenture.

In our capacity as Bond Counsel, we have examined, among other things, the following:

(a) a certified copy of the proceedings of the Board adopting the 2008 Authorizing Resolution and the Bond Resolution which authorized among other things, the execution and delivery of the Indenture and the issuance of the Series 2009F Bonds;

(b) a certified copy of the 2008 Authorizing Resolution;

(c) a certified copy of the Bond Resolution;

(d) the backdoor referendum proceedings required by Section 15 of the Act and the notice and hearing requirements of the Bond Issue Notification Act of the State of Illinois;

(e) an executed counterpart of the Indenture;

(f) the Tax Agreement; and

(g) such other certifications, documents, showings and related matters of law as we have deemed necessary in order to render this opinion.

Based upon the foregoing we are of the opinion that:

1. The Board has full power and authority and has taken all necessary corporate action to authorize the execution and delivery of the Indenture.

2. The Indenture has been duly and lawfully executed and delivered by the Board and, assuming its due authorization, execution and delivery by, and its 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 Series 2009F Bonds have been duly and validly authorized and issued in accordance with law and the Indenture, and the Series 2009F Bonds, to the amount named, are valid and legally binding general obligations of the Board, enforceable in accordance with their terms and the terms of the Indenture.

5. The form of the Series 2009F Bond prescribed for said issue is in due form of law.

6. The Series 2009F Bonds are payable ratably and equally (i) together with the Board's Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008A (the "Series 2008A Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008B (the "Series 2008B Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2008C (the "Series 2008C Bonds"), Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009A (the "Series 2009A Bonds") and Unlimited Tax General Obligation Refunding Bonds (Dedicated Revenues), Series 2009E (Taxable Build America Bonds "Direct Payment") being issued on the date hereof (the "Series 2009F Bonds") from the *"Pledged State Aid Revenues,"* being that amount of the State Aid Revenues, not in excess of $225,000,000 in any year, as shall provide for the payment of (a) the Pledged State Aid Revenues Sub-Account Requirement, the Series 2008A Bonds, the Series 2008B Bonds, the Series 2008C Bonds, the Series 2009A Bonds and the Series 2009E Bonds and the provision of not less than an additional 0.10 times such amounts in such year, (b) the provision of 0.25 times the Pledged Federal Subsidy Revenues

Sub-Account Requirement and (c) any Applicable Percentage of Swap Payments; (ii) from the *"Pledged Federal Subsidy Revenues,"* being that amount of the Federal Subsidy Revenues as shall provide for the payment of (a) the Pledged Federal Subsidy Revenues Sub-Account Requirement and (b) any Applicable Percentage of Swap Payments; and (iii) from the *"Pledged Taxes,"* being the ad valorem taxes levied against all of the taxable property in the School District without limitation as to rate or amount for the payment of the Series 2009F Bonds and the Series 2009E Bonds. The Series 2009F 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. Under existing law and assuming compliance with certain covenants made by the Board to satisfy pertinent requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2009F Bonds (i) is excluded from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Code and (ii) is not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Failure to comply with certain of such Board covenants could cause interest on the Series 2009F Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2009F Bonds. Ownership of the Series 2009F 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 2009F Bonds.

9. Interest on the Series 2009F Bonds is not exempt from State of Illinois income taxes.

The rights of the owners of the Series 2009F Bonds and the enforceability of provisions of the Series 2009F Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. Enforcement of provisions of the Series 2009F Bonds and the Indenture by an equitable or similar remedy is subject to general principles of law or equity governing such a remedy, including the exercise of judicial discretion whether to grant any particular form of relief.

In rendering this opinion, we have relied upon certifications of the Board and certain other parties with respect to certain matters solely within their knowledge relating to the facilities financed with the Series 2009F Bonds, the application of proceeds of the Series 2009F Bonds and certain other matters pertinent to the tax exempt status of the Series 2009F Bonds.

This opinion is based upon laws, regulations, rulings and decisions in effect on the date hereof. We assume no responsibility for updating this opinion to taken 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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Board of Education of the City of Chicago • Unlimited Tax General Obligation Bonds, Series 2009E (Taxable Build America Bonds "Direct Payment") and Tax-Exempt Unlimited Tax General Obligation Bonds, Series 2009F

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