

ORDINANCE NO. -05-49

AN ORDINANCE AUTHORIZING THE ACQUISITION AND CONSTRUCTION OF A SEWER SYSTEM FOR THE CITY OF HIGHLAND, ARKANSAS; AUTHORIZING THE ISSUANCE AND SALE OF A REVENUE BOND FOR THE PURPOSE OF FINANCING THE COST THEREOF; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BOND; AND PRESCRIBING OTHER MATTERS RELATING THERETO.

BE IT ORDAINED by the City Council of the City of Highland, Arkansas that:

Section 1. Certain terms used herein are defined in the bond form appearing in Section 5 of this Ordinance; other terms used herein shall have the following definitions:

"Accountant" means an independent certified public accountant not in the regular employ of the Issuer.

"Authorized Officers" means the Mayor and the City Recorder, or successors.

"Bond" means City of Highland, Arkansas Sewer Revenue Bond authorized by this Ordinance in the Principal Amount.

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

"Construction Fund" means a special fund created by this Ordinance and designated "Sewer Revenue Bond Construction Fund, Series 2005."

"Depreciation Fund" means a special fund which has been heretofore created and designated "Sewer Depreciation Fund."

"Memorandum of Agreement" means the Memorandum of Agreement between the Issuer and the Arkansas Soil and Water Conservation Commission, No. 00354-WSSW-D, dated _____, 2005, as now or hereafter revised.

"Operation and Maintenance Fund" means a special fund which has been heretofore created and designated "Sewer System Operation and Maintenance Fund."

"Prior Bond Fund" means the special fund which has been heretofore created for the purpose of providing funds to pay the principal of and interest on the Prior Issue.

"Prior Ordinance" means Ordinance No. 04-39, adopted April 27, 2004.

"Revenue Fund" means a special fund which has been heretofore created and designated "Sewer Revenue Fund."

Section 2. The Improvements shall be accomplished. Acquiring, constructing and equipping the Improvements as more specifically described in the report prepared by the Project Consultant are hereby approved, authorized and directed. The Authorized Officers are hereby authorized to take, or cause to be taken, all action necessary to accomplish the Improvements and to execute all required contracts and documents, including, but not limited to, the Memorandum of Agreement and a Non-Arbitrage Certificate. The City Council hereby finds and declares that the period of usefulness of the System will be more than 40 years, which is longer than the term of the Bond.

Section 3. (a) Under the authority of the laws of the State of Arkansas, including particularly the Acts, the issuance of the Bond is hereby authorized and the Bond is ordered issued for the purpose of accomplishing the Improvements and paying necessary expenses incidental thereto and to the issuance of the Bond.

(b) The Bond shall be initially dated the date of original issuance and delivery, shall mature on the Maturity Date and shall bear interest from the Date of Issue at the Interest Rate. Principal of and interest on the Bond shall be payable according to the Payment Schedule.

(c) The Bond shall be issuable only as a fully registered Bond without coupons in one denomination and shall be numbered "R-1."

(d) The Bond, upon subsequent transfer, shall be exchanged for a new Bond dated as of the Payment Date to which interest has been paid, or if it is transferred prior to a date on which any interest has been paid, it shall be dated the Date of Issue. Principal and interest on the Bond shall be payable on the Payment Dates. Payment of each installment of principal and interest shall be made to the person in whose name the Bond is registered on the registration books of the Issuer maintained by the City Recorder, as bond registrar, at the close of business on the Record Date, irrespective of any transfer or exchange of any

such Bond subsequent to such Record Date, and prior to such Payment Date, by check or draft mailed to such Registered Owner, at his address on such registration books. The City Recorder shall keep a payment record and make proper notations thereon of all payments of principal and interest.

(e) The Issuer shall cause to be maintained books for the registration and for the transfer of the Bond as provided herein and in the Bond. The City Recorder shall act as the bond registrar. The Bond is transferable only by the Registered Owner thereof or by his attorney duly authorized in writing. Upon such transfer the ownership of the Bond shall be registered to the subsequent Registered Owner, and a new fully registered Bond of the same maturity, for the same Principal Amount, less the amount of partial redemption, if any, will be issued in exchange therefor to the subsequent Registered Owner.

(f) No charge shall be made to any Registered Owner of any Bond for the privilege of transfer, but any Registered Owner of the Bond requesting any such transfer shall pay any tax or other governmental charge required to be paid with respect thereto. Except as otherwise provided in the immediately preceding sentence, the cost of preparing each new Bond upon each transfer and any other expenses of the Issuer incurred in connection therewith, shall be paid by the Issuer.

(g) The person in whose name the Bond shall be registered shall be deemed and regarded as the absolute Registered Owner thereof for all purposes, and payment of or on account of the principal or interest on the Bond shall be made only to or upon the order of the Registered Owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon the Bond to the extent of the sum or sums so paid. The Issuer shall not be affected by any notice to the contrary.

(h) When the Payment Date or date fixed for redemption of the Bond shall be a Saturday or Sunday or shall be in the State of Arkansas a legal holiday or a day on which banking institutions are authorized by law to close, then payment of principal or interest need not be made on such date but may be made the next succeeding business day with the same force and effect as if made on the Payment Date or date fixed for redemption and no interest shall accrue for the period after the Payment Date or date fixed for redemption.

(i) The Bond shall be executed on behalf of the Issuer by the manual signatures of the Authorized Officers and the seal of the Issuer shall be affixed thereto.

Section 4. The sale of the Bond to the Arkansas Soil and Water Conservation Commission pursuant to the Memorandum of Agreement for the purchase price of \$206,000, is hereby authorized subject to the Interest Rate, Maturity Date and other terms and provisions set forth in detail herein. The Memorandum of Agreement, in substantially the form submitted to this meeting, is hereby approved. The Mayor is hereby authorized and directed to execute and deliver the Memorandum of Agreement on behalf of the Issuer and to take all action required on the part of the Issuer to fulfill its obligations under the Memorandum of Agreement. The Mayor is further authorized and directed to execute and deliver any necessary revision to the Memorandum of Agreement on behalf of the Issuer in order to modify any provisions thereof to conform to the terms of this Ordinance.

Section 5. The Bond shall be in substantially the following form and the Authorized Officers are hereby expressly authorized and directed to make all recitals on behalf of the Issuer contained therein:

(Form of Bond)

REGISTERED

REGISTERED

No. R-1

\$206,000

UNITED STATES OF AMERICA
STATE OF ARKANSAS
COUNTY OF SHARP
CITY OF HIGHLAND
SEWER REVENUE BOND
SERIES 2005

As used in this Bond the following terms shall have the following definitions:

"Act" or "Acts" whether one or more means Title 14, Chapter 164, Subchapter 4, and Title 19, Chapter 9, Subchapter 6, of the Arkansas Code of 1987 Annotated.

"Bond Fund" means a special fund which has been created by the Issuer's Authorizing Action and is designated "2005 Sewer Revenue Bond Fund."

"Date of Issue" means the date this Bond is issued and delivered to the original purchaser, which is _____, 2005.

"Dated Date" means the Date of Issue or, if this Bond is exchanged and registered to a subsequent Registered Owner, the Payment Date immediately prior to such exchange or registration.

"Improvements" means the System, including all real and personal property embraced therein.

"Interest Rate" means 5.00%.

"Issuer" means City of Highland, Arkansas.

"Issuer's Authorizing Action" means City of Highland, Arkansas Ordinance No. ____ duly adopted and approved by the Issuer on _____, 2005.

"Maturity Date" means December 1, _____.

"Payment Date" means December 1, _____ and every December 1 thereafter.

"Payment Schedule" means \$_____ of principal plus accrued interest on December 1, _____ and, thereafter, equal installments of principal and interest in the amount of \$_____ on each Payment Date to and including December 1, _____, with \$_____ of principal and interest due on the Maturity Date.

"Principal Amount" means \$206,000.

"Prior Issues" means City of Highland, Arkansas Sewer Revenue Bond, Series 2004.

"Project Consultant" means _____.

"Record Date" means the 15th day of the month (whether or not a business day) next preceding each Payment Date.

"Redemption Schedule" means the following schedule for optionally redeeming this Bond on the Redemption Dates at the Redemption Price (expressed as percentages of the Principal Amount) set forth in the following schedule, together with accrued interest to the Redemption Date:

<u>Redemption Dates</u> <u>(Dates Inclusive)</u>	<u>Redemption Price</u>
Prior to December 1, _____	No Redemption
December 1, _____ and thereafter	Par

"System" means the sewer system of the Issuer.

KNOW ALL MEN BY THESE PRESENTS:

That the Issuer, for value received, hereby promises to pay, by check or draft, to the order of Arkansas Soil and Water Conservation Commission or registered assigns (collectively, the "Registered Owner"), the Principal Amount with interest thereon, at the Interest Rate per annum shown above, in such coin or currency from the Dated Date hereof, payable as provided in the Payment Schedule until payment in full of such Principal Amount or, if this Bond or a portion hereof shall be duly called for redemption, until the date fixed for redemption, and to pay interest on overdue principal and interest (to the extent allowed by law) at the rate borne by this Bond. Payments shall be first applied to accrued interest and the balance thereof shall be applied to principal. Payment shall be made to the person in whose name this Bond is registered on the registration books of the Issuer maintained by the City Recorder, as bond registrar, at the close of business on the Record Date, irrespective of any transfer or exchange of this Bond, subsequent to the Record Date and prior to such Payment Date.

This Bond is issued for the purpose of financing and paying the costs of the construction of Improvements, and paying necessary expenses incidental thereto and to the issuance of this Bond.

This Bond is issued pursuant to and in full compliance with provisions of the Constitution and laws of the State of Arkansas, including particularly the Acts, and pursuant to the Issuer's Authorizing Action, and does not constitute an indebtedness of the Issuer within any constitutional or statutory limitation.

This Bond is not a general obligation of the Issuer but is a special obligation of the Issuer payable solely from receipts received from the operation of the System (the "Revenues"). This Bond is secured by a pledge by the Issuer of the Revenues pursuant to the provisions of the Acts in favor of the Registered Owner of this Bond. In this regard, the security is subordinate as to lien, pledge and security to the lien, pledge and security in favor of the Prior Issue.

An amount of Revenues sufficient to pay the principal of and interest on this Bond has been duly pledged and set aside as a special fund for that purpose, and will be deposited from time to time into the Bond Fund created pursuant to the Issuer's Authorizing Action, under which this Bond is authorized to be issued. Reference is hereby made to the Issuer's Authorizing Action for a detailed statement of the terms and conditions upon which this Bond is issued, of the terms and conditions for the issuance of additional bonds, of the nature and extent of the security for this Bond, and of the rights and obligations of the Issuer and the Registered Owner.

This Bond is subject to mandatory redemption at par from bond proceeds not used to pay the cost of the Improvements on the first Payment Date following the date of the Project Consultant's completion certificate, and to redemption at the option of the Issuer, pursuant to the Redemption Schedule. In the event of partial redemption, prepayments shall be applied in inverse order of maturity, the length of the Payment Schedule shall be reduced accordingly and the amount due on each Payment Date shall not be reduced.

The Issuer has fixed and has covenanted and agreed to maintain rates for the services of the System which shall be sufficient at all times to provide for the proper and reasonable expenses of operation and maintenance of the System and for the payment of the principal of and interest on this Bond, to maintain any required debt service reserves and to make the required deposit for the depreciation of the System.

This Bond is transferable by the Registered Owner hereof only as provided in the Issuer's Authorizing Action. The Issuer may deem and treat the Registered Owner as the absolute owner hereof for the purpose of receiving payment of principal and interest due hereon and for all other purposes, and the Issuer shall not be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed under the Constitution and laws of the State of Arkansas, precedent to and in the issuance of this Bond have existed, have happened and have been performed in due time, form and manner as required by law; that the indebtedness represented by this Bond does not exceed any constitutional or statutory limitation; and that the Revenues have been pledged in accordance with the Acts sufficient to pay this Bond and interest hereon until this Bond and interest hereon have been fully paid and discharged.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be executed by the undersigned Authorized Officers and its corporate seal to be affixed hereto, all as of the Dated Date shown above.

CITY OF HIGHLAND, ARKANSAS

ATTEST:

By: _____
Mayor

City Recorder

(SEAL)

(Form of Assignment)
A S S I G N M E N T

FOR VALUE RECEIVED, _____
("Transferor"), hereby sells, assigns and transfers unto
_____, the within Bond and
all rights thereunder, and hereby irrevocably constitutes and
appoints _____ as attorney to transfer
the within Bond on the books kept for registration thereof with
full power of substitution in the premises.

DATE: _____

Transferor

GUARANTEED BY:

NOTICE: Signature(s) must be guaranteed by a member of or
participant in the Securities Transfer Agents Medallion Program
(STAMP), or in another signature guaranty program.

Section 6. Principal of and interest on the Bond shall
be payable according to the Payment Schedule.

Section 7. (a) The rates charged for services of the
System heretofore fixed by ordinance of the Issuer and the
conditions, rights and obligations pertaining thereto, as set out
in that ordinance, are ratified, confirmed and continued.

(b) The Issuer hereby expressly pledges, mortgages and appropriates all of the receipts received from the operation of the System (the "Revenues") after the adoption hereof, to secure the payment of the principal of and interest on the Bond when due at maturity or at redemption prior to maturity and as security for the performance of all other obligations of the Issuer hereunder; and the Bond is hereby secured by the lien of such pledge; and the Revenues shall be used for no other purpose than to pay the principal of and interest on the Bond, except as otherwise specifically provided herein. The Bond and interest thereon shall not constitute an indebtedness of the Issuer within any constitutional or statutory limitation. The Bond is not a general obligation of the Issuer but is a special obligation of the Issuer payable solely from Revenues. Nothing herein shall be construed as requiring the Issuer to use any funds or revenues from any sources other than the Revenues for the payment of the Bond, but nothing herein shall be construed as prohibiting the Issuer from doing so.

(c) The Issuer, and the officers and employees of the Issuer, shall execute, perform and carry out the terms of this pledge in strict conformity with the provisions of this Ordinance.

(d) The lien, pledge and security in favor of the Bond are subordinate to the lien, pledge and security in favor of the Prior Issue.

Section 8. All Revenues shall be paid as and when received into the Revenue Fund. All moneys at any time in the Revenue Fund shall be applied to the payment of the reasonable and necessary expenses of operation and maintenance of the System, to the payment of the principal of and interest on the Bond, the Prior Issue and bonds subsequently issued secured by Revenues (collectively, "System Bonds"), to the maintenance of any required debt service reserves at the required levels, to the maintenance of the Depreciation Fund in the required amount and otherwise as described herein.

The provisions of the Prior Ordinance are hereby confirmed and are adopted for the benefit and protection of the Registered Owner, subject to the rights and interests of the holders of the Prior Issue. Without limiting the foregoing, the provisions of the Prior Ordinance creating and providing for deposits into the Revenue Fund, the Operation and Maintenance Fund and the Depreciation Fund are hereby confirmed and adopted.

Section 9. (a) The Bond Fund is hereby established as a special fund of the Issuer. The Bond Fund shall be held in a bank or banks selected by the City which are members of the Federal

Deposit Insurance Corporation ("FDIC"). Moneys in the Bond Fund shall be used solely for the purpose of paying principal and interest on the Bond.

(b) After making the required monthly deposit into the Operation and Maintenance Fund to pay the reasonable and necessary expenses of operation, repair and maintenance of the System for such month and into the Prior Bond Fund pursuant to the Prior Ordinance and prior to making the required monthly deposit into the Depreciation Fund, there shall be paid from the Revenue Fund into the Bond Fund, beginning on the first business day of the month immediately following the month in which the Bond is delivered, and continuing on or before the first business day of each month thereafter until the Bond with interest thereon have been paid in full, or provision made for such payment, a sum equal to 1/12 of the installment of principal and interest coming due during the then next twelve months on the Bond; provided however, that deposits into the Bond Fund through November 2005 shall be adjusted as necessary in order that approximately equal payments during that period will provide for the first principal and interest payment. Credit shall be given on the monthly payments into the Bond Fund for any amounts of investment earnings thereon.

(c) If the Revenues are insufficient to make the required payment on the first business day of the month into the Bond Fund, the amount of any such deficiency in the payment made shall be added to the amount otherwise required to be paid into the Bond Fund on the first business day of the next month.

(d) When the moneys held in the Bond Fund shall be and remain sufficient to pay the principal of and interest on the Bond then outstanding, there shall be no obligation to make further payments into the Bond Fund.

(e) If a surplus shall exist in the Bond Fund over and above the amount required for making all principal and interest payments during the succeeding twelve months on the Bond, such surplus may be applied to the payment of the principal of the Bond to the extent that it may be called for redemption prior to maturity or deposited into the Revenue Fund. All moneys deposited in the Bond Fund shall be expended within a thirteen month period beginning on the date of deposit, and any amount received from investment of money held in the Bond Fund shall be expended within one year from the date of receipt and in any event all money in the Bond Fund in excess of a carryover amount not to exceed the greater of (A) one year's earnings on the Bond Fund, or (B) 1/12 of the annual debt service on the Bond, shall be depleted at least once a

year as provided in this Section or by transfer to the Revenue Fund.

(f) The Bond shall be specifically secured by a pledge of all moneys and Revenues required to be placed into the Bond Fund. The pledge in favor of the Bond is hereby irrevocably made according to the terms hereof, and the Issuer and its officers and employees shall execute, perform and carry out the terms thereof in strict conformity with the provisions hereof.

Section 10. Any surplus in the Revenue Fund after making all disbursements for the operation and maintenance of the System and providing for all funds described above may be used, at the option of the Issuer, for the redemption of the Bond, the Prior Issue and other System Bonds prior to maturity in accordance with their respective redemption provisions; for extensions, betterments and improvements to the System; or for any other lawful governmental purpose authorized by the Issuer.

Section 11. (a) When the Bond has been executed and sealed by the Authorized Officers, it shall be delivered to the Arkansas Soil and Water Conservation Commission upon payment of the purchase price of \$200,000 ("total sale proceeds"). The total sale proceeds shall be deposited in the Construction Fund, which is hereby created as a special fund in the name of the Issuer. The Construction Fund shall be held in a bank or banks selected by the City which are members of FDIC.

(b) The moneys in the Construction Fund shall be used for accomplishing the Improvements, paying expenses incidental thereto and paying expenses of issuing the Bond, with any unexpended balance to be deposited in the Bond Fund. Disbursements shall be made from the Construction Fund on the basis of checks which shall contain at least the following information: the person, firm or corporation to whom payment is being made; the amount of the payment; and the purpose by general classification of the payment. Each check must be signed by the City Treasurer and such other person or persons designated by the City. The City Treasurer shall keep records of all payments made from the Construction Fund.

(c) No disbursement shall be made from the Construction Fund until all proceeds of the Prior Bonds, proceeds of the Issuer's Sales and Use Tax Bonds, Series 2004, available grant funds, and Issuer funds in the amount of \$61,600 have been expended or have been deposited into any required debt service reserves.

(d) When the Improvements have been completed and all required expenses paid and expenditures made from the Construction

Fund for and in connection with the accomplishment of the Improvements and the financing thereof, this fact shall be evidenced by a certificate signed by an Authorized Officer and an agent of the Project Consultant which certificate shall state, among other things, the date of the completion and that all obligations payable from the Construction Fund have been discharged (the "Completion Certificate"). A copy of the Completion Certificate shall be filed with the depository of the Construction Fund and upon receipt thereof such depository shall transfer any remaining balance to the Issuer for deposit into the Bond Fund.

Section 12. (a) Moneys held for the credit of the Depreciation Fund, the Revenue Fund, the Operation and Maintenance Fund, the Bond Fund and the Construction Fund shall be invested and reinvested in Government Securities (which for purposes hereof are hereby defined to mean direct or fully guaranteed obligations of the United States of America), in certificates of deposit of banks which are insured by FDIC, or, if in excess of \$100,000, are collateralized by Government Securities or other securities authorized by Arkansas law to secure public funds (collectively, "Collateral Securities"), or in other investments as may, from time to time, be permitted by law and approved by the Registered Owner, which shall mature, or which investments shall be subject to redemption by the holder thereof, at the option of such holder, not later than the date or dates when such money will be required for the purposes intended.

(b) Obligations so purchased as an investment of moneys in any fund shall be deemed at all times to be a part of such fund and the interest accruing thereon and any profit realized from such investments shall be credited to such fund, and any loss resulting from such investment shall be charged to such fund.

(c) Moneys so invested in authorized investments or certificates of deposit of banks to the extent insured by FDIC need not be secured by the depository bank or banks. Except as set forth in the preceding sentence, all deposits of Revenues shall be collateralized by the pledge of Collateral Securities in such a manner as to be perfected against the claims of innocent creditors under state and federal law.

Section 13. (a) The Bond shall be subject to redemption prior to maturity in accordance with the terms set out in the bond form herein. The Issuer hereby covenants to use moneys in the Construction Fund not necessary to pay the cost of the Improvements to redeem the Bond at par on the first Payment Date following the date of the Completion Certificate.

(b) The Bond shall be deemed paid when (1) there has been deposited with the Registered Owner an amount sufficient to pay the principal or redemption price of and interest on the Bond to the Maturity Date or redemption or (2) there has been deposited with the Registered Owner, Government Securities that mature according to their terms and are non-callable or redeemable at the option of the holder thereof on or prior to the Maturity Date or redemption of the Bond and the principal or redemption price of and interest on which will provide an amount sufficient to pay in full the principal or redemption price of and interest on the Bond when due; provided that such deposit will not affect the tax exempt status of the interest on the Bond or cause the Bond to be classified as an arbitrage bond within the meaning of Section 148 of the Code, and provided further, that if the Bond is to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given as provided in the Bond Form. If the Bond is called for redemption and funds are duly provided in accordance with this Ordinance prior to the date fixed for redemption, the Bond will cease to bear interest on such redemption date. Prepayment of less than all outstanding principal shall be applied in inverse order of maturity.

(c) In determining the sufficiency of the deposit there shall be considered the principal amount of such Government Securities and interest to be earned thereon until the maturity of such Government Securities.

(d) The Bond paid either at or before maturity shall be cancelled and shall not be reissued.

Section 14. So long as the Bond is outstanding, it is hereby covenanted by the Issuer with the Registered Owner that:

(a) The Issuer covenants that the rates charged for services of the System hereby fixed and established are not less than the minimum necessary to produce and will hereafter produce, and shall be maintained in amounts necessary to produce, total Revenues at all times at least sufficient to: pay operation and maintenance expenses of the System; pay the principal of and interest on outstanding System Bonds as the same become due; maintain any required debt service reserves in the required amounts; and make the required deposits into the Depreciation Fund. The Issuer further covenants that the rates shall never be reduced while the Bond is outstanding unless (1) there is obtained from an Accountant a certificate that the net revenues of the System that will be derived from the proposed new rates, based upon the previous twelve months of consumption, will be sufficient in amount for making the required deposit into the Depreciation Fund, and for

maintenance of any required debt service reserves in the required amounts, and leave a balance equal to at least 110% of the average annual principal and interest requirements on all outstanding System Bonds and (2) the Issuer is not in default hereunder. The Issuer further covenants and agrees that the rates shall be maintained in such manner as will provide net revenues at least sufficient to provide the required deposits into the Depreciation Fund, and to leave a balance amount equal to not less than 110% of the average annual principal and interest requirements for all System Bonds outstanding. The term "net revenues" as used in this Section, means all Revenues, less the expenses of operation and maintenance of the System, including all expense items properly attributable to the operation and maintenance of the System determined in accordance with generally accepted accounting principles applicable to government owned facilities similar to the System, excluding depreciation and debt service expenses.

(b) The Issuer covenants that it will diligently collect the Revenues and continuously operate the System as a revenue producing undertaking.

(c) The Issuer covenants that so long as the Bond is outstanding, that it will not mortgage, pledge or otherwise encumber the System, or any part thereof or any Revenues, except as herein specifically provided, and will not sell, lease or otherwise dispose of any substantial portion of the same. Nothing herein shall be construed to prohibit the Issuer from disposing of worn out or obsolete System properties or from disposing of properties not being used and not useful in the operation of the System, provided that all receipts derived from the disposition of such properties shall be deposited in the Revenue Fund.

(d) The Issuer covenants that it will duly observe and comply with all valid requirements of any governmental authority relative to the System, that it will not create or suffer to be created any lien or charge upon the System or any part thereof or upon the Revenues, except in accordance with the provision hereof, and that, from such Revenues, it will pay or cause to be discharged, or will make adequate provision to satisfy and discharge, within 60 days after the same shall accrue, all lawful claims and demands for labor, materials, supplies or other objects which, if unpaid, might by law become a lien upon the System or any part thereof or upon the Revenues therefrom; provided, however that nothing in this Section contained shall require the Issuer to pay or cause to be discharged, or make provision for, any such lien or charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings.

(e) The Issuer covenants that it will keep the System facilities insured against loss or damage, and maintain public liability and property damage insurance against claims for bodily injury or death and damage to property occurring upon, in or about the System facilities, in each case in an amount and against such risks as are usually insured against in connection with similar facilities and undertakings as the System. The Issuer further covenants that it will maintain adequate facility insurance or bonds on all officers or employees responsible for handling funds of the System. All insurance required by this subsection shall be effected with reputable insurance companies selected by the Issuer, which usually insure risks similar in nature and monetary exposure.

(f) The Issuer covenants that it will not issue any bond, or incur any obligation, either (i) secured by a prior lien on or pledge of the Revenues or (ii) on a parity of security with the Bond, except the Issuer reserves the right to issue additional bonds to finance or pay the cost of constructing any future extensions, betterments or improvements to the System or to refund System Bonds, but the Issuer shall not authorize or issue any such additional bonds having a priority on or ranking on a parity with the Bond unless and until there has been procured and filed with the Issuer and the Registered Owner a statement by an Accountant reciting the opinion, based upon necessary investigation, that the net revenues of the System for the fiscal year immediately preceding the fiscal year in which it is proposed to issue such additional bonds shall equal not less than 110% of the average annual principal and interest requirements on all the then outstanding System Bonds and the additional bonds then proposed to be issued. For the purposes of the computation required by this Section, if, prior to the issuance of the additional bonds and subsequent to the first day of such preceding fiscal year, the Issuer shall have increased its rates or charges imposed for services of the System, there may be added to the net revenues of such fiscal year the additional net revenues which would have been received from the operation of the System during such fiscal year had such increase been in effect throughout such fiscal year, as reflected by a certificate of a duly qualified consulting engineer not in the regular employ of the Issuer.

(g) The Issuer covenants that it will faithfully and punctually perform all duties with reference to the Revenues and the Bond, and apply the Revenues as required herein and by the Constitution and laws of the State of Arkansas.

(h) The Issuer covenants that it will forthwith proceed to construct the Improvements for which the Bond shall be issued in accordance with plans and specifications which shall have been

approved by the Project Consultant, and in conformity with law and all requirements of all governmental authorities having jurisdiction thereover, and that it will expeditiously complete such construction.

(i) The Issuer covenants that it will perform its obligations and enforce its rights under its contract for the acquisition of water from the Highland Water Association, Inc., to the end that adequate supplies of water shall always be available to the users of the System.

Section 15. The Issuer agrees that it will keep proper books of accounts and records to be kept (separate from all other accounts and records) in which complete and correct entries shall be made of all transactions relating to the operation of the System, and such books shall be available for inspection by the Registered Owner at reasonable times and under reasonable circumstances. The Issuer agrees to provide the Registered Owner with management reports in accordance with the Memorandum of Agreement plus an annual financial statement for the System no later than 60 days after the end of the year. In addition, the Issuer agrees to have the System records audited by an Accountant at least once each year, and a copy of the audit shall be delivered to the Registered Owner no later than 120 days after the end of the year. In the event that the Issuer fails or refuses to make the report, the Registered Owner may have the audit made, and the cost thereof shall be charged against the Operation and Maintenance Fund.

Section 16. All Revenues received shall be deposited in such depository or depositories for the Issuer as may be lawfully designated from time to time; subject, however, to the giving of security as now or as hereafter may be required by law and provided that such deposits shall be in the name of the Issuer and shall be so designated as to indicate the particular fund to which the Revenues belong.

Section 17. (a) If there be any default in the payment of the principal of and interest on the Bond, or if the Issuer defaults in the performance of any covenant contained herein, the Registered Owner may, by proper suit compel the performance of the duties of the officials of the Issuer hereunder and under the Constitution and laws of the State of Arkansas, and may take any action or obtain any proper relief in law or equity available under the Constitution and laws of the State of Arkansas, including any action for the appointment of a receiver to administer the System on behalf of the Issuer and the Registered Owner with power to charge and collect (or by mandatory injunction or otherwise to

cause to be charged and collected) rates sufficient to provide for the payment of the expenses of operation, maintenance and repair of the System and to pay the Bond and interest outstanding and to apply the Revenues in conformity herewith and with the laws of Arkansas. When all defaults in principal and interest payments have been cured, the custody and operation of the System shall revert to the Issuer.

(b) No remedy herein conferred upon or reserved to the Registered Owner is intended to be exclusive of any other remedy or remedies herein provided, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or given by any law or by the Constitution of the State of Arkansas.

(c) No delay or omission of the Registered Owner to exercise any right or power accrued upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given hereby to the Registered Owner may be exercised from time to time and as often as may be deemed expedient.

(d) Any costs of enforcement of the obligations of the Issuer hereunder, including reasonable attorney's fees, shall be paid by the Issuer and shall constitute obligations of the Issuer hereunder.

(e) All remedies set forth herein are subject to the rights of the holders of the Prior Issue.

Section 18. In the event that the City Council or the office of the Authorized Officers shall be abolished or any offices shall be merged or consolidated or in the event the duties of a particular office shall be transferred to another officer or officers, or in the event of a vacancy in any such office by reason of death, resignation, removal from office or otherwise, or in the event any such officer shall become incapable of performing the duties of his office by reason of sickness, absence from the Issuer or otherwise, all powers conferred and all obligations and duties imposed upon such office or officer shall be performed by the office or officers succeeding to the principal functions thereof, or by the office or officer upon whom such powers, obligations and duties shall be imposed by law.

Section 19. The terms hereof shall constitute a contract between the Issuer and the Registered Owner and no variation or change in the undertaking herein set forth shall be made while the Bond is outstanding, except as hereinafter set forth in subsection

(b), and the Registered Owner may at any time for and on his own behalf enforce the obligations of the Issuer by a proper suit for that purpose.

Section 20. (a) The Issuer covenants with the Registered Owner, who otherwise might qualify by law to treat interest on the Bond as tax-exempt, that it shall not take any action or suffer or permit any action to be taken or condition to exist which causes or may cause the interest payable on the Bond to be subject to federal income taxation pursuant to existing laws at the time of issuance; and it shall at all times do and perform all acts and things permitted by law and necessary or desirable in order to assure that interest payable on the Bond shall be exempt from federal income taxation pursuant to existing laws at the time of issuance. Without limiting the generality of the foregoing, the Issuer covenants that the proceeds of the sale of the Bond will not be used directly or indirectly in such manner as to cause the Bond to be treated as an "arbitrage bond" within the meaning of Section 148 of the Code.

(b) The Issuer represents and covenants that it has not used or permitted the use of, and covenants that it will not use or permit the use of the Improvements or the proceeds of the Bond, in such a manner as to cause the Bond to be a "private activity bond" within the meaning of Section 141 of the Code. In this regard, the Issuer covenants that (i) it will not use (directly or indirectly) the proceeds of the Bond to make or finance loans to any person and (ii) that while the Bond is outstanding the System and the Improvements will only be used by persons on a basis as members of the general public.

The Issuer will not, except upon first receiving an opinion of counsel of national reputation with regard to the exemption from income tax of interest on state and local government obligations to the effect that the exemption of interest on the bonds will not be adversely affected thereby, (a) enter into any contract for the providing of System services or (b) enter into any amendment of any contract (regardless of when originally entered into) for the providing of System services.

(c) The Issuer represents and covenants that it will take no action which would cause the Bond to be "federally guaranteed" within the meaning of Section 149(b) of the Code. Nothing in this Section prohibits investments in bonds issued by the United States Treasury.

(d) The Issuer certifies that (i) it is a governmental unit of the State of Arkansas, (ii) 95% of the net proceeds of the

sale of the Bond will be used for governmental activities of the Issuer within its jurisdiction and (iii) the Issuer is aware of no reason to expect that it and its subordinate entities, if any, will issue tax-exempt obligations (other than private activity bonds) having an aggregate face amount in excess of \$5,000,000 during the calendar year in which the Bond is issued.

(e) The Issuer agrees to make all filings with the Internal Revenue Service (specifically including Form 8038G) that are required from time to time to assure that the Bond is and will remain an obligation on which the interest is excluded from gross income of the holder under Section 103(a) of the Code.

(f) This Ordinance shall be considered an "official intent" within the meaning of United States Treasury Regulation No. 1.150-2.

Section 21. Any sewer committee heretofore or hereafter created by the Issuer to operate the System on behalf of the Issuer may be designated by the Issuer to perform any of the obligations of the Issuer set forth in this Ordinance.

Section 22. The provisions hereof are hereby declared to be separable and if any provision shall for any reason be held illegal or invalid, such holding shall not affect the validity of the remainder hereof.

Section 23. All actions, ordinances and resolutions or parts thereof in conflict herewith are hereby repealed to the extent of such conflict.

ADOPTED THIS DATE: May 24, 2005.

APPROVED:

By: David Shackelford
Mayor

ATTEST:

Mary Wales
City Recorder

(SEAL)



CERTIFICATE

The undersigned, City Recorder of the City of Highland, Arkansas, hereby certifies that the foregoing pages are a true and correct copy of Ordinance No. 05-49, adopted at a regular session of the City Council of the City held at the regular meeting place of the City Council in the City at 7:15 p.m., on the 24 day of May, 2005, and that the Ordinance is of record in Ordinance Record Book No. 05, Page 49, now in my possession.

GIVEN under my hand and seal this 24 day of May, 2005.

Mary White
City Recorder

(SEAL)



EXCERPTS FROM MINUTES OF MEETING OF THE
HIGHLAND, ARKANSAS CITY COUNCIL
HELD May 24, , 2005

The City Council of the City of Highland, Arkansas, met in regular session at 7:15 o'clock p.m., on the 24 day of May, 2005. The following were present: Mayor David Shackelford; City Recorder Mary Ruth Wiles; and Aldermen Denise Gibbons, Bob Vance, Ty Casey, David Harris, Shawn Reed, Larry Allen.
Absent: Willie Eversoll & Jerome Norwood.

The Mayor announced that this was the time established for a public hearing on proposed new bonds and that notice of hearing was given by one publication thereof in The News on the 12 day of May, 2005. The meeting was then opened for a hearing of all persons desiring to present comments, suggestions or objections to the proposed bonds. After hearing all those desired to be heard, the Mayor declared the public hearing closed.

Thereupon, Alderman Gibbons introduced an Ordinance entitled:

AN ORDINANCE AUTHORIZING THE ACQUISITION AND CONSTRUCTION OF A SEWER SYSTEM FOR THE CITY OF HIGHLAND, ARKANSAS; AUTHORIZING THE ISSUANCE AND SALE OF A REVENUE BOND FOR THE PURPOSE OF FINANCING THE COST THEREOF; PROVIDING FOR THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BOND; AND PRESCRIBING OTHER MATTERS RELATING THERETO.

Alderman Allen, seconded by Alderman Harris, moved that the rule requiring the reading of an ordinance in full on three different days be suspended and that the Ordinance be placed on its first reading by title only. The Mayor put the question on the adoption of the motion and the roll being called, the following voted aye:

Alderman: Gibbons
Alderman: Vance
Alderman: Casey
Alderman: Harris
Alderman: Reed
Alderman: Allen

and the following voted nay:

Thereupon the Mayor declared that at least two-thirds of all members of the Council having voted in favor of the motion to suspend the rule, the motion was carried and the rule suspended. The Ordinance was then read by title only by the City Recorder.

Alderman Gibbons, seconded by Alderman Allen, moved that the rule requiring the reading of an ordinance in full on three different days be further suspended and that the Ordinance be placed on its second reading by title only. The Mayor put the question on the adoption of the motion and the roll being called, the following voted aye:

Alderman: Gibbons
Alderman: Vance
Alderman: Casey
Alderman: Harris
Alderman: Reed
Alderman: Allen

and the following voted nay:

Thereupon the Mayor declared that at least two-thirds of all members of the Council having voted in favor of the motion to suspend the rule, the motion was carried and the rule suspended. The Ordinance was then read by title only by the City Recorder.

Alderman Gibbons, seconded by Alderman Allen, then moved that the rule requiring the reading of an ordinance in full on three different days be further suspended and that the Ordinance be placed on its third reading by title only. The Mayor put the question on the adoption of the motion and the roll being called, the following voted aye:

Alderman: Gibbons
Alderman: Vance
Alderman: Casey
Alderman: Harris
Alderman: Reed
Alderman: Allen

and the following voted nay:

Thereupon the Mayor declared that at least two-thirds of all members of the Council having voted in favor of the motion to suspend the rule, the motion was carried and the rule suspended. The Ordinance was then read by title only by the City Recorder.

Alderman Gibbons, seconded by Alderman Allen, moved that the Ordinance be adopted. The question was put by the Mayor on the adoption of the motion and the roll being called, the following voted aye:

Alderman: Gibbons
Alderman: Vance
Alderman: Casey
Alderman: Harris
Alderman: Reed
Alderman: Allen

and the following voted nay:

The Mayor thereupon declared the Ordinance adopted and signed the Ordinance, which was attested by the City Recorder and sealed with the seal of the City. The Ordinance was given No. 05-49.

(Matters not relating to the hearing or the Ordinance are omitted.)

There being no further business, the Council adjourned.

David Shackelford
Mayor

ATTEST:

Mary Wiles
City Recorder



CERTIFICATE

The undersigned, City Recorder of Highland, Arkansas, hereby certifies that the foregoing pages are a true and correct copy of excerpts of the minutes of a regular meeting of the City Council of Highland, Arkansas held at the regular meeting place of the Council in the City at 7:15 o'clock p.m., on the 24 day of May, 2005.



City Recorder

(SEAL)

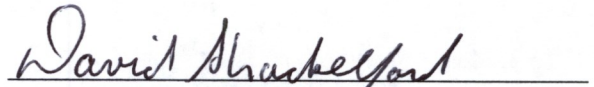
7



NOTICE OF ADOPTION OF ORDINANCE

Notice is hereby given that the City Council of the City of Highland, Arkansas has adopted Ordinance No. 05-49, authorizing the acquisition and construction of sewer facilities to serve the City and the issuance of sewer revenue bonds.

Copies of the Ordinance may be obtained at the office of the City Recorder.



Mayor

PROOF OF POSTING OF ORDINANCE NOTICE

STATE OF ARKANSAS

COUNTY OF SHARP

The undersigned, City Recorder of the City of Highland, Arkansas, hereby certifies that Notice of the Adoption of Ordinance No. 49, authorizing the acquisition and construction of sewer facilities to serve the City and the issuance of sewer revenue bonds, was adopted and approved May 24, 2005, and was posted at the following locations: Town & Country, Timberline, Red Mule, Hill Drugs and Davis Drugs, being five of the most public places in the City. The Notice was posted on May 31, 2005, and to the best of my knowledge, remained so posted for a period of thirty days thereafter. A copy of the Notice is attached hereto, Exhibit A.

DATED this 1 day of June, 2005.



Mary White
City Recorder

AREAWIDE MEDIA

HIGHWAY 62 EAST
P.O. BOX 248
SALEM, ARKANSAS 72576
501-895-3207
FAX: 501-895-4277

NOTICE

Notice is hereby given by the City of Highland, Arkansas (the "City") that the City proposes to issue its Sewer Revenue Bond in the maximum principal amount of \$250,000 for the purpose of financing a portion of the costs of acquiring and constructing a municipal sewer system. The total cost of the project is expected to be approximately \$4,300,000, with the balance to be financed by the City's Sewer Revenue Bond, Series 2004 and Sales and Use Tax Bond, Series 2004, City funds and grant funds. A public hearing and concerning the proposed issuance of the bond will be held by the City Council at 6:30 p.m. on the 24 day of May, 2005 at the regular meeting place of the Council in Highland, Arkansas. At the public hearing, all interested persons shall have an opportunity to be heard, orally and in writing, concerning the proposed issuance of the bond.

This 12 day of May, 2005.

David Shackelford, Mayor

AFFIDAVIT PROOF OF PUBLICATION

TO City of Highland

DATE May 12, 2005

I, Janie Flynn do solemnly swear that I am General Manager of The News, and that the advertisement charged for in the attached invoice was published in said publication as follows:

1st insertion 12th day of May, 2005

2nd insertion _____ day of _____

3rd insertion _____ day of _____

4th insertion _____ day of _____

5th insertion _____ day of _____

The cost of this publication is computed according to established rates and/or state law, whichever is applicable.

TOTAL PRICE \$ 23.00

Janie Flynn
General Manager

Subscribed and sworn before me this

12th day of May, 2005

NOTARY PUBLIC
STATE OF ARKANSAS
County of Fulton
ANGELA M. NOAKES
My Appointment Expires July 12, 2014

Angela M Noakes
Notary Public