New Issue – Bank Qualified **S&P's Rating: A**

In the opinion of Thompson Coburn LLP, Bond Counsel, conditioned on continuing compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds is excluded from gross income for federal income tax purposes. Also in the opinion of Bond Counsel, interest on the Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax on corporations and other taxpayers, including individuals. However, interest on the Bonds is included in a corporate taxpayer's adjusted current earnings for purposes of determining its federal alternative minimum tax liability. Interest on the Bonds is not exempt from present Illinois income taxes. In the opinion of Bond Counsel, the Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code (relating to financial institution deductibility of interest expense). See "TAX MATTERS" herein.

$4,225,000
CITY OF HIGHLAND, ILLINOIS
SENIOR LIEN ELECTRIC SYSTEM REVENUE BONDS
(FIBER-TO-THE-PREMISES PROJECT), SERIES 2012

Dated: Date of Original Issuance **Due: January 1, as shown below**

The Series 2012 Bonds will be issued in fully registered form, as herein described, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2012 Bonds. Purchases of the Series 2012 Bonds will be made in book-entry only form. The Series 2012 Bonds will be issued in the denomination of $5,000 or any authorized integral multiple thereof. Purchasers will not receive certificates representing their interest in Series 2012 Bonds purchased. See "APPENDIX C - BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Series 2012 Bonds will be payable on January 1, 2013 and semiannually thereafter on January 1 and July 1. The Series 2012 Bonds will mature on January 1 as set forth below, subject to redemption prior to maturity as described more fully herein under the caption "THE SERIES 2012 BONDS - Redemption." So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made by The Bank of New York Mellon Trust Company, N.A., St. Louis, Missouri, as paying agent and bond registrar (the "Paying Agent") directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC. Distribution of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Series 2012 Bonds are issued on a parity with the City's Senior Lien Electric System Revenue Bonds (Fiber-to-Premises Project) (Build America Bonds-Direct Subsidy) Taxable Series 2010. The Series 2012 Bonds are limited obligations of the City of Highland, Illinois payable solely from and secured as to the payment of principal and interest by a pledge of the Net Revenues derived by the City from the operation of its electric system. The Series 2012 Bonds shall not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction, and neither the full faith and credit nor the taxing power of the City, Madison County or the State of Illinois is pledged to the payment of the principal or interest on the Series 2012 Bonds.

MATURITY SCHEDULE

Year	Amount	Rate	Year	Amount	Rate
2017	$210,000	2.00%	2025	$260,000	3.65%
2018	215,000	2.35	2026	270,000	3.80
2019	220,000	2.60	2027	280,000	3.85
2020	225,000	2.85	2028	290,000	3.90
2021	230,000	3.05	2029	305,000	3.95
2022	235,000	3.25	2030	315,000	4.00
2023	245,000	3.40	2031	330,000	4.05
2024	255,000	3.55	2032	340,000	4.10

(All Bonds Priced at Par)

The Series 2012 Bonds are offered subject to prior sale, when, as and if issued by the City and accepted by the Underwriter, and subject to the approval of their legality by Thompson Coburn LLP, Chicago, Illinois. It is expected that the Series 2012 Bonds in definitive form will be available for delivery on or about April 12, 2012.

Edward Jones

This Official Statement is dated April 4, 2012.

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the City, the Financial Advisor, or the Underwriter to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the Financial Advisor, or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The information set forth herein has been furnished by the City and from other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Financial Advisor or the Underwriter. This Official Statement is not to be construed as a contract or agreement between the City or the Underwriter and the purchasers or owner of any of the Series 2012 Bonds. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Any statements made in this Official Statement, including the Appendices, involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such estimates will be realized. This Official Statement contains certain forward-looking statements and information that is based on the City's beliefs as well as assumptions made by and information currently available to the City. Forward-looking statements are identified by terminology such as "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "projects," "potential," "continues," or the negative of these terms or other comparable terminology. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected.

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THE CITY OF HIGHLAND

MAYOR

Joseph R. Michaelis

COUNCIL MEMBERS

Neill Nicolaides
Aaron Schwarz
Peg Bellm
Chris Bardill

CITY MANAGER

Mark Latham

DIRECTOR OF FINANCE

Kelly Korte

CITY ATTORNEY

Belsheim & Bruckert, LLC
O'Fallon Illinois

BOND COUNSEL

Thompson Coburn LLP,
Chicago, Illinois

FINANCIAL ADVISOR

WM Financial Strategies
St. Louis, Missouri

SUMMARY STATEMENT

This summary statement is subject, in all respects, to more complete information contained in this Official Statement. The offering of the Series 2012 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise use it without this entire Official Statement.

The City

The City of Highland (the "City") is located in west central Illinois, approximately 40 miles east of the City of St. Louis. According to a special census of the United States Census Bureau, its 2010 population was 9,919 compared to 7,122 in 1980. The City is an attractive suburban community for residents who commute to places of employment throughout the St. Louis metropolitan area.

The Electric System

The City owns and operates an electric system known as the Department of Light & Power (the "Electric System"). Electric production facilities serving the City are owned by the City or the Illinois Municipal Electric Agency. Residents obtain electrical service through the City-owned distribution system. Additional information regarding the Electric System is included under the caption "THE ELECTRIC SYSTEM."

Management of the Electric System

The City Council is responsible for all basic policy decisions relating to the Electric System, including budgetary matters, bidding, construction, rates and fees for services, and engagement of consulting engineers.

The Director of the Light and Power Department, an electrical engineer, is responsible for supervising the Electric System's 17 employees and the activities of the Electric System in compliance with procedures established by the City Council.

Daily operations and maintenance of the Electric System are performed by 9 linemen. Three operators maintain and operate the generators. Consulting engineers are engaged from time to time as required for activities which are beyond the scope of the Electric System's staff.

Authority and Purpose of the Series 2012 Bonds

At an election held on April 7, 2009, voters approved the issuance of $18,840,000 of electric system revenue bonds for the purpose of acquiring, constructing, owning, and operating a Broadband Network by a vote of 664 in favor of to 217 against the issuance of bonds.

In 2010, the City issued $8,985,000 principal amount of Senior Lien Electric System Revenue Bonds (Fiber-To-The-Premises Project), Taxable Series 2010 (the "Series 2010 Bonds") to fund the initial phases of acquiring, constructing, and equipping an improvement and extension to the City's Electric System consisting of a community broadband network (the "Broadband Network") using a Fiber-to-the-Premises System (the "FTTP System") to be operated as a component of the City's Electric System (the "FTTP Component"). Proceeds from the Series 2010 Bonds were used to begin construction of the FTTP System which included extending a Broadband Network to approximately 57% of the City limits capable of serving 2,180 residential dwellings and 750 businesses.

The Series 2012 Bonds will extend the FTTP System and make it possible to provide service to an additional 1,342 residential dwellings. The use of the Series 2012 Bond proceeds is described in greater detail herein under the caption "THE PROJECT."

The Series 2012 Bonds are issued pursuant to applicable sections of the Illinois Municipal Code, as supplemented and amended (the "Municipal Code"), the Local Government Debt Reform Act, as supplemented and amended (the "Act"), and an authorizing ordinance adopted on March 5, 2012 (the "Bond Ordinance").

Outstanding Electric System Revenue Bonds

The City's outstanding bonds that have a lien on the revenues of the Electric System are $8,885,000 principal amount of Senior Lien Electric System Revenue Bonds (Fiber-To-The-Premises Project), Taxable Series 2010 (the "Series 2010 Bonds"), the Series 2012 Bonds and $2,235,000 principal amount of General Obligation Bonds (Electric System Revenue Alternate Revenue Source), Series 2006 (the "Series 2006 Bonds"). The Series 2006 Bonds have a lien on the Net Revenues that is subordinate to the Series 2010 Bonds and the Series 2012 Bonds. The Series 2006 Bonds are payable from Revenue Sharing Receipts (the City's share of State Income Taxes) and the Net Revenues of the System (the "Pledged Revenues").

Definition of Certain Terms

The Bond Ordinance defines Senior Bonds, Net Revenues, Operation and Maintenance Expenses, Net Revenues and Revenues as follows:

"Senior Bonds" means the Senior Lien Electric System Revenue Bonds (Fiber-to-Premises Project) (Build America Bonds-Direct Subsidy) Taxable Series 2010 and the Bonds.

"**Electric System Revenue Bonds**" means collectively the Series 2012 Bonds, the Series 2010 Bonds, the Series 2006 Bonds, and all other Senior Bonds and Junior Bonds issued from time to time by the City and which are payable from and secured by a pledge of the Net Revenues.

"Net Revenues" means Revenues less Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" means all reasonable and necessary expenses of ownership, operation, maintenance and repair of the Electric System, including the FTTP Component, and keeping the Electric System, including the FTTP Component, in good repair and working order, determined in accordance with generally accepted accounting principles, including current maintenance charges, expenses of reasonable upkeep and repairs, salaries, wages, costs of materials and supplies, Paying Agent fees and expenses, annual audits, periodic Consultant's reports, properly allocated share of charges for insurance, the cost of purchased power and other goods and services, obligations (other than for borrowed money or for rents payable under capital leases) incurred in the ordinary course of business, liabilities incurred by endorsement for collection or deposit of checks or drafts received in the ordinary course of business, short-term obligations incurred and payable within a particular Fiscal Year, obligations incurred for the purpose of leasing (pursuant to a true or operating lease) equipment, fixtures, inventory or other personal property, and all other expenses incident to the ownership and operation of the Electric System, including the FTTP Component, but excluding principal and interest paid on Electric System Revenue Bonds, capital costs, depreciation and amortization charges (including payments into the Depreciation and Replacement Account), and all general administrative expenses of the City not related to the operation of the Electric System, including the FTTP Component.

"Revenues" means all receipts of fees, charges and rates and all other income from whatever source derived from the Electric System, including the FTTP Component, including: (i) investment income; (ii) connection, permit and inspection fees and the like; (iii) penalties and delinquency charges; (iv) payments, if any, to the City from the Illinois Municipal Electric Agency; (v) annexation or pre-annexation charges insofar as designated by the Corporate Authorities as paid for Electric System, including the FTTP Component, connection or service; and (vi) any US Treasury Interest Subsidy received by the City with respect to Electric System Revenue Bonds; but excluding expressly (a) nonrecurring income from the sale of real estate; (b) governmental or other grants, (c) advances or grants made to or from the City; (d) capital development, reimbursement, or recovery charges and the like; (e) annexation or preannexation charges; and (f) as otherwise determined in accordance with generally accepted accounting principles for municipal enterprise funds.

For a more complete definition of the above referenced terms and other terms contained in the Bond Ordinance see "APPENDIX B - DEFINITIONS OF WORDS AND TERMS AND SUMMARY OF THE BOND ORDINANCE."

Security

The Series 2012 Bonds are special, limited obligations of the City payable solely from and secured by a pledge of the Net Revenues. The Series 2012 Bonds are issued and secured as Senior Bonds on a parity basis with the Series 2010 Bonds and any additional senior bonds issued by the City from time to time as provided in the Bond Ordinance and on a priority lien basis to any outstanding junior bonds and any additional junior bonds issued by the City from time to time as provided in the Bond Ordinance. The taxing power of the City is not pledged to the payment of the Series 2012 Bonds. The Series 2012 Bonds do not constitute a general obligation of the City or an indebtedness of the City within the meaning of any constitutional or statutory provision, limitation or restriction.

Series 2012 Bond Reserve Account

A Debt Service Reserve Account will be established with the proceeds from the Series 2012 Bonds in an amount equal to the Debt Service Reserve Requirement which is an amount equal to the least of (i) maximum annual debt service on the Series 2012 Bonds, (ii) 125% of average annual debt service on the Series 2012 Bonds or (iii) 10% of the proceeds of the Series 2012 Bonds, and with respect to any additional bonds issued pursuant to the Bond Ordinance the additional amount required pursuant to any Electric System Bond Ordinances which authorize the issuance of such Bonds.

Rate Covenant

The City will fix, establish, maintain and collect rates and charges for the use and services furnished, by or through the Electric System to produce income and revenues sufficient to (a) pay the costs of the operation and maintenance of the Electric System; (b) pay (together with Pledged Revenues) the principal of and interest on the Electric System Revenue Bonds as and when due; (c) provide reasonable and adequate reserves for the payment of the Electric System Revenue Bonds and the interest thereon and for the protection and benefit of the Electric System as provided in this Ordinance; (d) pay all amounts required to meet any fund or account requirements with respect to Electric System Revenue Bonds; (e) pay any other contractual or tort liability obligations, if any, payable from such Net Revenues, and (f) enable the City to have in each Fiscal Year Net Revenues Available for Debt Service in an amount not less than, with respect to Senior Bonds that are not Alternate Bonds, 120% of the Debt Service Requirements on such Senior Bonds (the "Coverage Requirement"), provided that, in no event shall the Coverage Requirement reduce the requirements pursuant to any Electric System Bond Ordinance, including any such ordinance authorizing and securing Alternate Bonds, and further provided that the Coverage Requirement calculated by excluding from Net Revenues any US Treasury Interest Subsidy shall not be less than 110% of the Debt Service Requirements on such Senior Bonds and not less than 100% of the Debt Service Requirements on all Electric System Revenue Bonds. The City will require the prompt payment of accounts for service rendered by or through the Electric System and will promptly take whatever action is legally permissible to enforce and collect delinquent charges.

Accounting and Reporting Practices

The financial statements for the Electric System, an enterprise fund, are reported on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles. Under this method of accounting, expenses are recorded when incurred and revenues are recognized when earned.

The City operates on a fiscal year commencing May 1 of each year and ending on April 30 of the following calendar year (the "Fiscal Year").

OFFICIAL STATEMENT
OF THE
CITY OF HIGHLAND, ILLINOIS
Relating to
$4,225,000
SENIOR LIEN ELECTRIC SYSTEM REVENUE BONDS
(FIBER-TO-THE-PREMISES PROJECT), SERIES 2012

INTRODUCTION

This Official Statement including the cover page and Appendices hereto, is provided by the City of Highland, Illinois (the "City") to furnish information in connection with its issuance of $4,225,000 principal amount of Senior Lien Electric System Revenue Bonds (Fiber-to-the Premises Project), Series 2012 (the "Series 2012 Bonds").

Brief descriptions of the Series 2012 Bonds, the Project, the City, the Electric System and the Bond Ordinance are included in this Official Statement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the Bond Ordinance and any other documents are qualified in their entirety by reference to such documents, and references herein to the Series 2012 Bonds are qualified in their entirety by reference to the form thereof included in the Bond Ordinance.

THE SERIES 2012 BONDS

Authority

The Series 2012 Bonds represent the second series of electric system revenue bonds authorized to be issued in a total principal amount of $18,840,000 at an election held on April 7, 2009, by a vote of 664 in favor of to 217 against the issuance of bonds for the purpose of acquiring, constructing, owning, and operating the FTTP System.

The Series 2012 Bonds are issued pursuant to applicable sections of the Illinois Municipal Code, as supplemented and amended (the "Municipal Code"), the Local Government Debt Reform Act, as supplemented and amended (the "Act") and the Bond Ordinance.

Security for the Series 2012 Bonds

The Series 2012 Bonds are special, limited obligations of the City payable solely from and secured by a pledge of the Net Revenues. The Series 2012 Bonds are issued and secured as Senior Bonds on a parity basis with the Series 2010 Bonds and any additional senior bonds issued by the City from time to time as provided in the Bond Ordinance and on a priority lien basis to any outstanding junior bonds and any additional junior bonds issued by the City from time to time as provided in the Bond Ordinance. The taxing power of the City is not pledged to the payment of the Series 2012 Bonds. The Series 2012 Bonds do not constitute a general obligation of the City or an indebtedness of the City within the meaning of any constitutional or statutory provision, limitation or restriction.

Description

The Series 2012 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2012 Bonds. Purchases of the Series 2012 Bonds will be made in book-entry only form. The Series 2012 Bonds will be issued in the denomination of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in Series 2012 Bonds purchased. See "APPENDIX C - BOOK-ENTRY ONLY SYSTEM."

The Series 2012 Bonds are dated the date of original issuance and will mature on January 1 in each of the years and in the amounts shown on the cover page of this Official Statement. Interest on the Series 2012 Bonds will be payable on January 1, 2013 and semiannually thereafter on January 1 and July 1. The Series 2012 Bonds will be issued in fully registered form in the denomination of $5,000 or any integral multiple thereof. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made by Paying Agent and Bond Registrar directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC. Distribution of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described in "APPENDIX C - BOOK-ENTRY ONLY SYSTEM."

Redemption

At the option of the City, the Series 2012 Bonds maturing on January 1, 2018 and thereafter are subject to optional redemption and payment prior to maturity on July 1, 2017, and thereafter, in whole or in part on any date in any order of maturity selected by the City and by lot in multiples of $5,000 within a maturity, at a redemption price of 100% of the principal amount being redeemed, without premium, together with accrued interest thereon to the date of redemption.

Notice of the City's intent to redeem the Series 2012 Bonds (including, when only a portion of the Series 2012 Bonds are to be redeemed, the maturities of such Series 2012 Bonds and the principal amounts thereof) shall be given by or on behalf of the City by United States registered or certified mail, postage prepaid, to the Paying Agent, said notice to be mailed not less than forty-five (45) days prior to the date fixed for redemption. Notice of the selection or call for redemption identifying the Series 2012 Bonds or portions thereof to be redeemed, shall be given by the Paying Agent on behalf of the City by mailing a copy of the redemption notice at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption by registered or certified mail to the Underwriter and by first class, registered or certified mail to the registered owner of each Series 2012 Bond to be redeemed in whole or in part at the address shown on the registration books; and a second notice of redemption shall be sent by certified mail, return receipt requested, at such address to the registered owner of any Series 2012 Bond who has not submitted his Series 2012 Bond to the Paying Agent for payment on or before the date sixty (60) days following the date fixed for redemption; provided, however, that neither any defect in giving such notice by mailing as aforesaid nor any defect in any notice so mailed shall affect the validity of any proceeding for the redemption of any Series 2012 Bond.

BONDOWNERS' RISKS

Risk of Taxability of the Interest on the Bonds. The Ordinance does not require the City to redeem the Series 2012 Bonds or to pay any additional interest or penalty in the event that interest on the Series 2012 Bonds becomes taxable. For information with respect to events that may require interest on the Series 2012 Bonds be included in gross income for purposes of federal income taxation, *see* "TAX MATTERS" herein.

Risk of Audit. The Internal Revenue Service (the "Service") has established an ongoing program to audit tax-exempt obligations to determine whether interest on such obligations should be included in gross income for federal income tax purposes. No assurance can be given that the Service will not commence an audit of the Series 2012 Bonds resulting in a negative determination with respect to the Series 2012 Bonds causing the loss to the owners thereof of the tax exemption of the interest on the Series 2012 Bonds for federal income tax purposes. Owners of the Series 2012 Bonds are advised that, if an audit of the Series 2012 Bonds were commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer, and the owners of the Series 2012 Bonds may not have a right to participate in such audit. Public awareness of any audit could adversely affect the market value and liquidity of the Series 2012 Bonds during the pendency of the audit, regardless of the ultimate outcome of the audit.

Secondary Markets and Prices. The Series 2012 Bonds may not be readily liquid, and no person should invest in the Series 2012 Bonds with funds such person may need to convert readily into cash. Registered Owners of the Series 2012 Bonds should be prepared to hold their Series 2012 Bonds to the stated maturity date. The Underwriter will not be obligated to repurchase any of the Series 2012 Bonds, and no representation is made concerning the existence of any secondary market for the Series 2012 Bonds. No assurance can be given that any secondary market will develop following the completion of the offering of the Series 2012 Bonds and no assurance can be given that the initial offering price for the Series 2012 Bonds will continue for any period of time.

THE CITY OF HIGHLAND

General

The City of Highland, Madison County, Illinois ("the City") was incorporated in 1884. Located in west central Illinois, the City is approximately 40 miles east of downtown St. Louis and covers an area of approximately 7.4 square miles. The City is a part of the St. Louis Metropolitan Statistical Area ("St. Louis MSA") which, at the time of the 2010 census, was comprised of the City of St. Louis, St. Louis County, and parts of the counties of St. Clair, Madison, Jersey, Clinton and Monroe in Illinois, and parts of the counties of St. Charles, Franklin, and Jefferson in Missouri.

The City is a growing community characterized by a strong commercial/industrial base, an abundance of public facilities and a variety of attractive residential developments. Founded in 1831 by Swiss settlers, the City functioned as a service center for the surrounding agricultural areas. Today, Highland not only retains this function, but also serves as an attractive suburban community providing employment opportunities both locally and to other employment centers in the St. Louis Metropolitan Area. The City's proximity to interstate highways and to a major metropolitan area has enhanced the City's growth and development and offers residents the opportunity to enjoy the cultural advantages of a large metropolitan area.

Government

The City is a non-Home Rule Unit and operates under the Managerial Form of municipal government. The legislative body of the City is the City Council. The City Council is comprised of the Mayor and four council members. Council members are elected at large to serve four-year terms, one-half of which expire biennially. The Mayor, elected at large to serve a four-year term, is the presiding officer of the City Council. The Mayor has the right to vote on all questions coming before the City Council, but has no power to veto any ordinance, resolution or motion of the City Council.

The Mayor, with the advice and consent of the City Council, appoints the City Manager. The City Manager is the chief administrative officer of the City and is responsible for implementing council directives and policies, hiring all department heads, managing the administrative and operating functions of the government.

Employees

The City currently has 107 full-time and 103 part-time employees. City paramedics, electric linemen, police officers, telecommunicators and operating engineers are members of one of five unions; the Fraternal Order of Police Labor Council ("FOP"), International Union of Operating Engineers ("IUOE"), International Brotherhood of Electrical Workers ("IBEW"), Fraternal Order of Police Labor Council-Telecommunicators ("FOP Telecommunications") or International Association of Firefighters ("IAFF"). The contract with FOP expires on April 30, 2013 and the contracts with IBEW and IUOE expire on April 30, 2014. The contracts with FOP Telecommunications and IAFF are in negotiations. The City has no record of a strike or labor dispute.

Pension Plan

City employees, except for policemen, are provided retirement benefits by the State of Illinois' State-administered Illinois Municipal Retirement Fund ("IMRF"), in which the City is required to participate. Pursuant to the Illinois Pension Code, the City is required to establish and maintain actuarial requirements of the fund.

Employees not qualifying for the Illinois Municipal Retirement Fund are considered "non-participating employees" and are covered under Social Security or the Police Pension Fund.

The annual City contribution rate is fixed by the State and provides for funding of prior service costs, including interest, as determined actuarially, over a future period of not more than 40 years. Pursuant to the Illinois Pension Code, the City is required to annually appropriate an amount sufficient to provide for its current contribution, including amounts required for contributions for Social Security purposes for covered employees. The City is authorized to levy a tax without voter approval, in an amount equal to the amount appropriated for such contributions.

Policemen receive pension benefits from the State-mandated, City-administered, Policemen's Pension Fund. A mandatory tax levy is imposed on cities in Illinois for funding this plan. A detailed description of the funds is included in Note 8 to the Financial Statements included as APPENDIX A to this Official Statement.

Community Services

Utilities

Natural gas service is provided by Ameren Illinois. The City provides water, sewer, electric, telephone, internet and cable telephone service.

The City's waterworks facilities include a treatment plant, distribution facilities and storage facilities. Storage facilities, with a combined capacity of 1,450,000 gallons, consist of a 1 million gallon ground storage tank, a 200,000 gallon elevated storage tank, a 150,000 clear well and a 100,000 gallon clear well. The City's treatment plant was upgraded in 1993 and has a maximum capacity to treat 4,200,000 gallons per day. Average daily demand is 1,221,000 gallons per day and peak demand is 2,100,000 gallons per day.

The City's sewerage system includes a collection and distribution system and a water reclamation facility. The water reclamation facility was upgraded in 1998 and presently has a design capacity to treat an average of 1.6 million gallons of wastewater per day with peak loads up to 4 millions gallons per day. The City's average dry weather flow is 1.24 million gallons per day.

For a description of the City's electric system see the caption "THE ELECTRIC SYSTEM." For a description of the City's telephone, internet and cable telephone services see the caption "the FTTP SYSTEM."

Media

A weekly newspaper is published in the City. The City receives cable television from Charter Communications.

Within the City is the Louis Latzer Memorial Public Library. Encompassing 15,552 square feet, the library has over 46,400 books, newspapers, magazine subscriptions, CDs and videos.

Public Safety

The City's police department provides police protection throughout the corporate limits of the City. Services are provided by 18 full-time officers and 8 civilian employees. Community programs offered by the department include DARE, bicycle engraving and neighborhood watch groups.

The City's fire department provides services from two stations. Thirty-four volunteer firefighters serve the City. The Department is rated "4" by the Insurance Services Organization, among ratings ranging from 1 to 10 with 1 as the highest. This rating is based on several factors including the number of firefighters and their training, response time, fire fighting equipment, the City's water system, and fire prevention programs of the Department.

Recreation Activities

There are numerous parks within and immediately adjacent to the City. The City owns and operates 9 parks, the largest of which is the Silver Lake Park which encompasses 460-acres of land surrounding a 740-acre lake. Recreational activities available at this park include fishing, boating, picnicking, archery, hiking and camping.

The other City parks encompass a combined total area of approximately 63-acres. Facilities at these parks include tennis courts, soccer fields, baseball diamonds, nature walks, a skate park, playground equipment and small children playground equipment. The parks offer supervised summer activities through full-time park and recreation leaders. The City also operates a public swimming pool and has a municipal band which offers weekly outdoor band concerts in the summer.

The City also owns a recreation center, the Korte Recreation Center, and a community building, the Weinheimer Memorial Building. The Korte Recreation Center is located on approximately 6.32-acres of a 27-acre site at Glik Park located in Highland, Illinois. The facility was opened in 2002, and has two gymnasiums, an indoor aquatic center with both a lap and lazy river function, an indoor walking and jogging track, an administrative office, a room for aerobics, and a state-of-the-art fitness center. The Weinheimer Memorial Building has a gymnasium and a senior center.

Privately owned parks include: Lindendale, owned by the Helvetia Sharpshooters Society since 1861; the Veterans of Foreign Wars Park, and; the Pistol and Rifle Club park, which offers an indoor pistol range, and outdoor rifle and trap shooting ranges.

The Highland Country Club offers a nine-hole golf course, fishing, swimming, and dining facilities.

Medical

Within the City is St. Joseph's Hospital (the "Hospital"), a 25-bed acute care medical facility that provides a wide range of inpatient, outpatient and emergency services. Established more than 130 years ago, the Hospital currently offers services that include audiology, 24-hour emergency medical, bladder care, inpatient and outpatient surgery, nuclear medicine, radiology and a nationally-recognized cardiac care network. The Hospital also has support groups for persons and families with Alzheimer's disease, cancer and diabetes, and offers nutritional, occupational, and physical therapy. The Hospital recently underwent an extensive lobby and image branding enhancement and, in January 2010, the Hospital completed construction of an off-site Priority Care facility. This facility offers patients high-quality care every day of the year during both daytime and evening hours to meet their needs, with on-site lab x-ray facilities. The Hospital has announced plans to build on new 75,000 square foot facility and a certificate of need was approved on February 28, 2012. Construction is expected to commence in the spring 2012 and to be completed in the summer of 2013.

Anderson Hospital recently completed construction of an ExpressCare facility within the City. The ExpressCare's team of healthcare professionals provide treatment for a wide variety of minor illnesses and injuries and offer radiology and a full-service lab.

The City provides ambulance service to an area encompassing approximately 185 square miles. The area encompasses the corporate limits of the City and four fire protection districts outside the City. The City's ambulance service maintains a fleet of three Advanced Life Support (Paramedic) ambulances, staffing two units 24-hours a day, 7 days a week with the third in reserve.

Education

The public school system within the City is operated under the administration and control of the Highland Community Unit School District #5 (the "School District") and the Southwestern Illinois Community College, a two-year community college district with a campus located in Belleville, Illinois 30 miles from the City. These districts are independent of the City, having their own elected or appointed officials, budgets and administrators. The districts are empowered to levy taxes, separate and distinct from those levied by the City.

The School District owns and operates 1 elementary, 1 middle school and 1 high school in the City limits. In addition, there is a privately owned elementary and junior high school in the City.

In addition to Southwestern Illinois Community College, higher education is available at Southern Illinois University Edwardsville ("SIUE"), located approximately 23 miles from the City. SIUE provides undergraduate, graduate and professional programs for approximately 12,300 students on a 2,600-acre campus. SIUE offers degrees in 42 undergraduate fields and in 35 graduate and professional programs, and has recently developed a business technology campus known as University Park.

Several other institutions of higher education are within a 35-mile radius of the City including McKendree College in Lebanon, Lewis and Clark College in Godfrey, Kaskaskia Community College in Centralia, Washington University in St. Louis, and Saint Louis University in St. Louis.

Economic and Demographic Data

Economy

The City is growing community characterized by a strong commercial/industrial base, an abundance of public facilities and a variety of attractive residential developments. Founded in 1831 by Swiss settlers, the City functioned as a service center for the surrounding agricultural areas. Today, Highland not only retains this function, but also serves as an attractive suburban community providing employment opportunities both locally and to other employment centers in the St. Louis Metropolitan Area. The City's proximity to interstate highways and to a major metropolitan area has enhanced the City's growth and development and offers residents the opportunity to enjoy the cultural advantages of a large metropolitan area.

The City currently has approximately 285 business establishments. The City's retail activity is centered in four locations; the historic downtown and three strip shopping centers.

Transportation

There are four interstate highways which run through Madison County, two are within eight miles of the City (Interstate 55, and 270) and one (Interstate 70 running east and west across the United States) is immediately adjacent to the City. U.S. Route 40, running east and west, is the main artery through the City. Two railroads, the Chicago Northwestern and the Norfolk Southern, provide rail transportation and fixed route bus transportation in the City is provided by the Madison County Transit District.

Tri-City Regional Port District, located 40 miles west of the City, operates barge terminal facilities on the Mississippi River. Lambert-St. Louis International Airport, a major international airport located in St. Louis County, Missouri is approximately 45 miles from the City. Commercial air service is provided by St. Louis Regional Airport, a general aviation facility in Bethalto, Illinois approximately 30 miles from the City, and at MidAmerica Airport, located approximately 20 miles from at the City. The City is also served by two private general aviation airports, Highland Winet and Schaefer Metro East in Troy, the latter just 10 miles from the City.

Population

The following table sets forth population statistics for the City:

Year	Population
1980	7,122
1990	7,546
2000	8,438
2010	9,919

Source: United States Department of Commerce, Bureau of Census.

Major Employers

The largest employers located within the City are as follows:

Name	Product or Service	Number of Employees
Basler Electric	Electrical Equipment Manufacturer	425
Cooper B-Line Systems	Industrial Support Systems	413
Highland C.U.S.D.	Education	350
Wal-Mart Stores	Department Store	280
St. Joseph's Hospital	General Hospital	240
City of Highland	Municipal Government	210
Faith Countryside Homes	Nursing/Assisted Living	120
Highland Supply	Packaging – Cellophane	114
The Korte Company	Construction Services	81
Jefferson Smurfit	Packaging Manufacturer	50

Source: City of Highland 2012 survey of employers except for Highland Supply which is a City estimate and the City of Highland which reflects current employment.

Employment

According to the US Bureau of Census, American Community Survey, 5-Year Estimates, in 2009 the total civilian labor force of the City was 5,296 and 330 people were unemployed. This represents a 6.2% unemployment rate.

Housing

The following table sets forth certain statistics relating to housing for the City and, for comparative purposes, Madison County and the State of Illinois:

	Median Value of Owner Occupied Housing	% Built from 2000 or later	% Built Before 1940
City of Highland	$136,900	10.3%	19.8%
Other Entities:			
Madison County	117,700	8.9	16.8
State of Illinois	200,400	8.9	23.5

Source: U.S. Census Bureau, 2005-2009 American Community Survey, 5-Year Estimates.

Income

The following table sets forth certain income statistics for the City and, for comparative purposes, Madison County and the State of Illinois:

	Per Capita Income 2009 dollars	Median Family Income 2009 dollars	% Population Below Poverty Level
City of Highland	$27,516	$66,315	4.9%
Other Entities:			
Madison County	25,873	62,895	12.2
State of Illinois	28,469	67,660	12.4

Source: U.S. Census Bureau, 2005-2009 American Community Survey, 5-Year Estimates.

Building and Construction Data

The following table sets forth the number of units and value of building permits issued by the City for new construction and improvements for the past five Fiscal Years:

	Residential		Commercial & Industrial		
Fiscal Year	Number of Permits	Value	Number of Permits	Value	Total Value
2007	215	$14,129,834	38	$3,657,387	$17,787,221
2008	151	7,019,076	48	5,359,232	12,378,308
2009	130	3,050,739	57	7,690,694	10,741,433
2010	149	9,558,000	53	5,812,000	15,370,000
2011	123	2,909,000	46	4,905,000	7,814,000

Source: City Development Department.

THE CITY'S FINANCES

Accounting and Reporting Practices

The accounts of the City are organized on the basis of funds and account groups, in conformance with generally accepted accounting principles applicable to governments. The Government-Wide Financial Statements present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Governmental funds use the modified accrual basis of accounting and proprietary funds use the accrual basis of accounting. Under 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. Under the modified accrual basis of accounting, revenues are recognized when they are both available and measurable. Available means revenues collected within 60 days or less. Expenditures are recognized when the related fund liability is incurred.

The City Council annually engages an independent certified public accountant for the purpose of performing an audit of the books of account, financial records, and transactions of the City.

Budget Process

The City's Finance Director prepares a formal budget based upon information provided by department heads and elected officials. Following completion of a draft budget, it is reviewed by the City manager who then submits to the City Council for further review and comment. After the budget is reviewed by the City Council it is filed for inspection prior to its passage. In addition, a public hearing is held prior to its adoption. Prior to the commencement of each fiscal year, the City Council approves the budget and files a copy with the County Clerk.

Investments

The City has a formal investment policy that permits the City to invest in all securities authorized for Illinois municipalities. Presently, all of the City governmental funds are in demand deposits or certificates of deposit.

THE ELECTRIC SYSTEM

Facilities and Source of Power

Prior to 1977, the Electric System was self-sustaining, in that all demand was met by the City's own generators. Beginning in 1977, the City purchased power wholesale, primarily from Illinois Power. The City generators were used for peak shaving and emergency back-up.

Starting in 1990, the City became a member utility of the IMEA, the Illinois Municipal Electric Agency ("IMEA"). The IMEA is a consortium made up of 31 municipal electric utilities located throughout Illinois. The main purpose of the IMEA is to purchase and provide electricity to its members at a wholesale rate. Member utilities then re-sell the electricity to their customers at retail rates. The bulk of the purchased power is supplied by Central Illinois Power, Commonwealth Edison and the Trimble County Kentucky power plant, 12% of which is owned by the IMEA. Additional power needs are met by member generation or spot market purchases. (Additional information concerning IMEA including its annual report and audited financial statements are available at http://www.imea.org.)

In late 1998, the IMEA began construction on a new 138,000 volt transmission line running from Collinsville to Highland. The line serves as an interconnection between the City and the transmission grid via Ameren-IP. The line was commissioned in June of 1999, resulting in a far more reliable electric supply for the City. The City assumed ownership of the $8 million dollar line in 2002.

Total electrical load for the 2011 Fiscal Year amounted to 147.5 megawatt-hours, with a peak load of 37.6 megawatts.

The City's distribution system consists of 6,918 poles, 1,569 pole mounted transformers, 858 padmount transformers and 7 substations. There are 257 miles of overhead circuits and 121 miles of underground circuits.

In addition, the Electric System also owns a 138 kV interconnect line constructed by the IMEA. This line, which is the main electric supply into the City, runs from Collinsville to the power plant yard. It consists of 176 poles spaced along a route that is 14.7 miles in length, connecting an Illinois Power transmission line to the 138 kV sub-station.

Contract with IMEA

The City receives power from IMEA pursuant to a Power Sales Contract dated June 1, 1990, as amended from time to time (the "Contract"). The Contract specifies, among other matters, the amount of electricity to be delivered to the City by IMEA, charges and billing procedures. The Contract extends to September 30, 2035.

Management and Organization

The City Council is responsible for all basic policy decisions relating to the Electric System, including budgetary matters, bidding, construction, rates and fees for services, and engagement of consulting engineers.

The Director of the Light and Power Department, an electrical engineer, is responsible for supervising the Electric System's 17 employees and the activities of the Electric System in compliance with procedures established by the City Council.

Daily operations and maintenance of the Electric System are performed by 9 linemen. Three operators maintain and operate the generators. Consulting engineers are engaged from time to time as required for activities which are beyond the scope of the Electric System's staff.

Service Area, Customers and Usage

The City has a firmly delineated service area, which encompasses approximately a 64 square mile radius. The City has agreed to service boundaries with Southwest Electric Co-Op, Clinton County Co-Op, and Illinois Power. The City has the right to serve any new customer within its service area, while continuing to serve existing customers outside its service area. The following table sets forth information regarding the number of customers served by the Electric System for the past five Fiscal Years:

Fiscal Year	Customers In City Limits	Customers Outside City Limits	Total
2007	4,685	1,562	6,247
2008	4,782	1,588	6,370
2009	4,884	1,603	6,487
2010	4,881	1,618	6,499
2011	4,911	1,635	6,546

Source: Finance Department of the City.

The City is the largest user of electric services and for the 2011 Fiscal Year paid $566,577 or 4.3% of electric revenues. Excluding the City, the Electric System revenues by customer class are comprised of approximately 57% residential, 35% industrial and 8% commercial. The following table sets forth information regarding the ten largest customers of the Electric System, excluding the City, based on the total amount billed during the 2011 Fiscal Year:

Customers	Revenues	Percent of Revenue Billed
Highland Community Schools	$386,142	3.0%
Wal-Mart Stores	338,796	2.6
St Joseph Hospital	300,945	2.3
Basler Electric	281,078	2.2
Jefferson Smurfit Cont	277,269	2.1
Faith Care	230,416	1.8
Trouw Nutrition	182,371	1.4
Schuette Stores	137,377	1.1
Dow Jones & Co	96,774	0.7
Faith Countryside	69,766	0.5

Source: Electric and Fiber Department.

The following table sets forth information regarding kilowatt hours billed for the past five Fiscal Years:

Year	KWH Billed
2007	134,643,952
2008	140,133,651
2009	132,894,140
2010	135,148,736
2011	142,627,386

Source: Electric and Fiber Department.

Billing

Customers are billed for services monthly. Customers that also receive water service, sewer service or trash collection from the City receive one bill for all services received. Bills are due 20 days after the billing date. Any bill remaining unpaid by the due date is considered delinquent and accrues a delayed payment charge equal to 1.5% percent of the amount billed.

In the event the bill remains unpaid 15 days following the due date, the City is authorized to discontinue service. Service to disconnected premises is not restored until the delinquent amount and the 1.5% penalty charge have been paid.

Approximately 19% of customers do not pay their bills by the due date; however only approximately .9% do not pay following receipt of a delinquent notice and have their electric service discontinued. Virtually all customers pay their bills immediately following the discontinuation of service.

Rates and Charges

Rates and charges are established by the City Council and are not subject to regulation by any other jurisdiction. The current rates became effective on October 1997. The following table sets forth the current rates established by ordinance:

Residential Service:

Description	Minimum Monthly Charge	Plus Rate/kwh
Energy Charge	$6.00	.0744

Commercial Service:

Description	Minimum Monthly Charge	Plus Rate/kwh
Energy Charge	$12.00	.0615

Industrial Service:

Description	Monthly Charge	Usage	Rate/kwh
Energy Charge	$25.00	First 365 X kW Demand	.0422
Energy Charge		Over 365 X kW Demand	.0359

In addition, for Industrial Service, there is a demand charge equal to $6.50 per KW.

The City has a power cost adjustment ("PCA") that is a rate applied to each kilowatt-hour usage of energy billed. The PCA is designed to change as the Electric System's wholesale power costs fluctuate based on a three month moving average. The City has had a PCA for over twenty five years. The PCA is reviewed annually and is periodically adjusted. The most recent PCA rate revision was in January 2007.

Summary of Electric System Operations

The following table sets forth certain financial information for the Electric System for the fiscal years ended April 30, 2009 through 2011. The information included herein was derived from the City's Audited Financial Statements.

Electric System (Light and Power)
Revenues, Expenses and Changes in Net Assets

	Fiscal Year Ended April 30		
	2009	2010	2011
OPERATING REVENUE			
Charges for Services[1]	$11,120,364	$11,699,970	$13,017,061
Connection Fees	33,480	15,125	16,282
Total Revenue	11,153,844	11,715,095	13,033,343
OPERATING EXPENSES EXCLUDING DEPRECIATION			
Personnel Services[2]	1,198,894	1,200,536	1,684,461
Contractual Services	1,266,022	1,639,813	1,367,095
Purchase Power	7,040,035	7,409,834	8,329,781
Utilities	20,431	—	93,865
Supplies and Materials	386,304	235,358	374,018
Total Operating Expenses	9,911,686	10,485,541	11,849,220
OPERATING INCOME BEFORE DEPRECIATION	1,242,158	1,229,554	1,184,123
DEPRECIATION AND NON-OPERATING REVENUE (EXPENSES)			
Depreciation	(740,258)	(989,029)	(1,014,283)
Interest Income	287,600	286,638	336,962
Interest Expense	(191,705)	(242,358)	(578,354)
Miscellaneous	53,770	18,293	305,831
Total Depreciation and Non-Operating Revenue (Expense)	(590,593)	(926,456)	(949,844)
NET INCOME (LOSS) BEFORE TRANSFERS	651,565	303,098	234,279
Operating Transfers From (to) Other Funds	(100,000)	(37,063)	200,000
Increase (Decrease) in Net Assets	551,565	266,035	434,279
NET ASSETS BEGINNING OF YEAR	14,757,169	15,308,734	15,574,769
NET ASSETS END OF YEAR	$15,308,734	$15,574,769	$16,009,048

(1) The increase in "Charges for Services" in the 2011 Fiscal Year was attributable to temperature extremes throughout the year.

(2) The increase in "Personal Services" expenses in the 2011 Fiscal Year was primarily the result of construction and start-up operations of the FTTP System.

2012 Projected Electric System Results

The City's 2012 Fiscal Year ends on April 30, 2012. Based on year to date results, the City expects Net Revenues for the 2012 Fiscal Year, including a US Treasury Interest Subsidy, to equal approximately $1,734,000. The unrestricted net assets for the 2012 Fiscal Year are expected to equal approximately $4,450,000 compared to $5,452,000 for the 2011 Fiscal Year. The reduction is attributable to capital expenditures which totaled approximately $1,600,000 and were partially offset by an operating surplus.

Outstanding Bonds

The following is a list of the City's outstanding bonds that have a lien on the revenues of the electric system:

Issue	Amount Outstanding
Senior Lien Electric System Revenue Bonds (Fiber-To-The-Premises Project), Taxable Series 2010	$ 8,885,000
Senior Lien Electric System Revenue Bonds (Fiber-To-The-Premises Project), Series 2012	4,225,000
General Obligation Bonds (Electric System Revenue Alternate Revenue Source), Series 2006[1]	2,235,000
	$15,345,000

(1) The Series 2006 Bonds have a lien on the revenues of the System that is subordinate to the Series 2010 Bonds and the Series 2012 Bonds and are payable from the Net Revenues together Revenue Sharing Receipts (the City's share of State Income Taxes).

Calculation of Debt Coverage

Pursuant to the Bond Ordinance, the City has covenanted to fix, establish maintain and collect such rates, fees and charges for services of the Electric System as will be sufficient to produce Net Revenues in each fiscal year equal to at least 1.2 times annual debt service on the Senior Bonds, 1.1 times debt service on the Senior Bonds excluding any US Treasury Interest Subsidy (which the City receives in connection of the Series 2010 Bonds), and not less 100% of the Debt Service Requirements on all Electric System Revenue Bonds.

	Fiscal Year Ending April 30		
	Actual 2011	Projected 2012(1)	Projected 2013(2)
Electric Revenue	$13,033,343	$14,245,553	$14,774,536
Interest Income	336,962	233,500	34,000
Miscellaneous Income	160,897	41,569	128,040
Revenues	13,531,202	14,520,622	14,936,576
Operating Expenses Excluding Depreciation, Amortization and Capital Expenditures(2)	11,849,220	12,944,804	13,450,091
Net Revenues Available for Debt Service Excluding US Treasury Interest Subsidy	$1,681,982	$1,575,818	$1,486,485
Debt Service on the Senior Bonds	$415,061(3)	$552,794	$682,205
Debt Service Coverage Excluding US Treasury Interest Subsidy	4.05X	2.85x	2.18x
Debt Service on the Senior Bonds and the Series 2006 Alternate Bonds	$1,175,161(3)	$1,263,832	$1,370,143
Debt Service Coverage Excluding US Treasury Interest Subsidy	1.43x	1.25x	1.08x
Net Revenues Available for Debt Service Including the US Treasury Interest Subsidy	$1,827,253	$1,734,296	$1,644,437
Debt Service Coverage on the Senior Bonds	4.4x	3.14x	2.41x

(1) Based on the Fiscal Year 2012 budget and year-to-date results.

(2) Revenues were based on several assumptions including current collections increased by the potential increase in the number of customers added to the FTTP System. Expenses were based on several assumptions including increases ranging from 2% to 3% for most line item expenditures.

(3) Reflects total principal and interest although a portion of the interest on the Series 2010 Bonds was paid from capitalized interest.

Source: Electric Revenues and Expenses were provided by the City of Highland Finance Department.

Debt Service Requirements

The following table sets forth the debt service on the Senior Bonds:

Fiscal Year	Outstanding Debt Service	The Series 2012 Bonds Principal	Interest	Total Debt Service	U.S. Treasury Interest Subsidy(1)	Net Debt Service
2013	$ 576,294		$ 105,911	$ 682,205	$ (157,953)	$ 524,252
2014	623,950		147,213	771,163	(157,133)	614,030
2015	730,013		147,213	877,226	(155,754)	721,471
2016	752,175		147,213	899,388	(153,011)	746,376
2017	811,938	$ 210,000	147,213	1,169,151	(149,428)	1,019,722
2018	807,693	215,000	143,013	1,165,706	(144,442)	1,021,263
2019	806,893	220,000	137,960	1,164,853	(138,912)	1,025,940
2020	804,263	225,000	132,240	1,161,503	(132,742)	1,028,761
2021	794,713	230,000	125,828	1,150,541	(125,899)	1,024,641
2022	788,398	235,000	118,813	1,142,211	(118,439)	1,023,771
2023	780,448	245,000	111,175	1,136,623	(110,407)	1,026,216
2024	771,035	255,000	102,845	1,128,880	(101,862)	1,027,018
2025	765,115	260,000	93,793	1,118,908	(92,790)	1,026,117
2026	752,615	270,000	84,303	1,106,918	(83,165)	1,023,752
2027	743,775	280,000	74,043	1,097,818	(73,071)	1,024,746
2028	733,013	290,000	63,263	1,086,276	(62,304)	1,023,971
2029	721,100	305,000	51,953	1,078,053	(51,135)	1,026,918
2030	706,600	315,000	39,905	1,061,505	(39,060)	1,022,445
2031	695,900	330,000	27,305	1,053,205	(26,565)	1,026,640
2032	683,700	340,000	13,940	1,037,640	(13,545)	1,024,095
Total	$14,849,631	$4,225,000	$2,015,142	$21,089,773	$(2,087,617)	$19,002,156

(1) Represents a 35% U.S. Treasury Interest Subsidy expected to be received in conjunction with the Series 2010 Bonds.

Future Debt

Following the issuance of the Series 2012 Bonds, the City will have $5,630,000 remaining of authorized electric system revenue bonds for the construction of the FTTP System. Proceeds from subsequent series of electric system revenue bonds, if issued, would further extend the boundaries of the FTTP System. The City currently has no plans for the issuance of the remaining authorized bonds.

Changes in the Electric Utility Industry

In general, the electric utility industry has been, and in the future may be, affected by a number of actions which could impact upon the financial condition of an electric utility such as the Electric System. Such factors include, among others: (i) effects of inflation on the operation and maintenance costs of an electric utility and its facilities, (ii) changes from projected future load requirements and relative costs and availability of different fuels, (iii) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (iv) changes resulting from conservation and demand side management programs on the timing and use of electric energy, (v) changes that might result from a national energy policy or other federal or state legislative changes and (vi) effects of competition from other suppliers of electricity. Any of these factors could have an effect on the financial condition of any given electric utility, including the Electric System, and likely would affect individual utilities in different ways.

Fundamental changes in the Federal regulation of the electric utility industry have been made by the Energy Policy Act of 1992 (the “Energy Policy Act”) and the Federal Energy Regulatory Commission (“FERC”) regarding transmission access and pricing, increased consolidation and mergers of electric utilities, the proliferation of self-generators and independent power producers, surplus generation in certain regional markets, and substantial changes in pricing and structures for electric services by many regulatory commissions and legislative bodies to promote increased competition in the electric utility industry. These changes increased competition in the electric utility industry, by increasing the opportunities for wholesale transactions. The City cannot predict what effect, if any, these changes will have on the Electric System's operations.

THE FTTP SYSTEM

General Description of the System

In 2010 the City issued the Series 2010 Bonds for the purpose of constructing the first two phases of a Broadband Network using a FTTP System. The FTTP System includes three components: namely, (1) a “local broadband project” (“LBP), as that phrase is used in §35 of the High Speed Internet and Information Technology Act (20 ILCS 661/35), for the deployment and delivery of high speed internet services and information and for use by the municipal government of the City of Highland in the performance of its duties; (2) a “public utility,” as that phrase is used in §11-117-2 of the Illinois Municipal Code conveyance of telephone messages is hereinafter referred to as the “telecom system”) to and from residences, schools, businesses, and industries within or near the City of Highland, and for use by the municipal government of the City of Highland in the performance of its duties; and (3) a “community antenna television system,” as that phrase is used in §11-42-11 of the Illinois Municipal Code (65 ILCS 5/11-42-11), (the “CATV system”) for the development and delivery of cable television services to residences, schools, businesses, and industries within or near the City of Highland, and for use by the municipal government of the City of Highland in the performance of its duties.

The City’s entry into the broadband market offers alternative service options to the local citizens and businesses providing another choice based on service, price, and offering an entirely new option based upon state of the art FTTP technology. The City’s goal is to provide its customers with a competitive market option that provides the community with different services than are currently available.

The FTTP System will be maintained as a division of the Electric System. The FTTP architecture is intended to benefit the utility customers and improve utility operations. The FTTP System will support the electric services through the Supervisory Control and Data Acquisition (“SCADA”) system. SCADA is a vertically integrated system of hardware and software used to acquire information about the health, efficiency and status of the electric grid and supporting equipment. More specifically, the SCADA system can be used to acquire data, monitor, switch and control all key electrical apparatus connected with the Electric System.

Proceeds from the Series 2010 Bonds were used to begin construction of the FTTP System which included extending a Broadband Network to approximately 57% of the City limits capable of serving 2,180 residential dwellings and 750 businesses.

Management of the FTTP System

The City is responsible for marketing, sales, installation, customer service, and billing. The City has engaged 10 employees to operate the FTTP System including a manager, broadband technicians, line workers and customer service representatives.

Rates and Charges for Services

Rates for FTTP System services have been approved by the City and are comparable with competitors pricing for each of the services offered.

Customers

As of February 2012, the FTTP System had 269 customers with 433 billable services installed. New customers and billable services are added weekly as more areas of the City become available for service. The Series 2012 Bonds will extend the FTTP System and make it possible to provide service to an additional 1,342 residential dwellings.

Competition

The services provided by the City through the FTTP System are in competition with other service providers. The City is a member of a cable TV consortium with other cities in Madison County. No one city in Madison County has its own franchise.

Pursuant to U.S.C.A. Title 47, Section 541, federal law prohibits the City from granting an exclusive franchise to any cable provider, including the City, as operator of the Broadband Network. The City's competitor for cable television in the City is Charter Communications, Inc. ("Charter"). Based on estimates by Spectrum Engineering Corporation, Auburn, Indiana ("Spectrum"), the City's engineer for the FTTP System, pay TV service in the City is estimated to be 84%, representing approximately 24% served by satellite and 60% served by Charter. Charter is the nation's fourth largest publicly traded cable operator, serving approximately 5.5 million customers. Charter provides advanced video, high-speed Internet and telephone services.

In addition to competition with Charter, telephone service in the City is also provided by Frontier Communications. Frontier Communications acquired Verizon Communications Inc. local wireline operations in 2011 in 14 states including Illinois with the objective of creating the nation's largest "pure rural" communications service provider of voice, broadband and video services in the U.S.

Operating Risks

Prior to the construction of the FTTP system, Spectrum prepared a report dated August 22, 2008 titled "Strategic Business Plan for Community Based Broadband Offering for the City of Highland, Illinois" (the "Business Plan"). Revenues and expenditures projections were revised in November 2009 (the "Business Plan Update"). The City subsequently retained Spectrum as the consulting engineer for the Project.

The Business Plan included financial projections of revenues and expenses based on a complete City-wide buildout consisting of 4,100 residents and 410 businesses. The Business Plan was prepared by Spectrum with knowledge that a number of decisions had yet to be made, including the phasing of the FTTP System, the rate structure, the cost and timing of construction, programming strategies and other key strategies involved in the development of the FTTP System. The stated purpose of the Business Plan was to assist the City in making fundamental decisions regarding the FTTP System and a number of the assumptions may not materialize.

The viability of establishing the Broadband Network is highly dependent upon achieving sufficient market share to support the capital investment. The financial projections included as part of the Business Plan included numerous assumptions, such as achieving certain service penetration levels for the broadband services set forth at suggested rates. If penetration levels are substantially lower than the projected percentages, then additional Electric System revenues will be necessary to cover operating losses and debt financing. Among the risks are the following:

Technological Changes. As in other industries, technical obsolescence remains a concern in the broadband telecommunications industry. The equipment and architecture of the FTTP System recommended in the Business Plan includes advanced broadband telecommunications technology with a life span of the fiber optic cables in excess of 30 years. However, it is possible that technological advances, such as wireless service, could render all or a portion of the FTTP System obsolete; however, no such technology currently exists. As new FTTP System enhancements are developed, the FTTP System will likely require upgrading to keep pace with changes in technology and to take advantage of new business opportunities.

Competition. Competition from other distributors, including but not limited to incumbent telephone companies, direct broadcast satellite operators, wireless broadband providers, and DSL providers.

Market for Services. According to the Business Plan, aggressive marketing will be required and there is no assurance that residents or businesses in the City will subscribe to the Broadband Network services or remain customers of the Broadband Network.

Economy. The success of the Broadband Network can be impacted by general business conditions, economic uncertainty or downturn, including the recent volatility and disruption in the capital and credit markets, and the significant downturn in the housing sector and overall economy.

THE PROJECT

Description

Proceeds from the Series 2012 Bonds will be used to further extend the FTTP System making it possible to provide service to an additional 1,342 residential dwellings. Upon completion, approximately 83% of the City will be within the Broadband Network. In particular, proceeds will be used to acquire easements, and acquire or construct the following system components: outside plant construction, FTTP electronics, and associated trucks tools and equipment needed to maintain the network.

The outside plant construction is expected to consist of the following:

- 1 additional mile of trunk/transport fiber
- 11 miles of aerial distribution fiber
- 15 miles of underground distribution fiber
- 4 nodes of local convergence cabinets
- 1,086 residential passings
- 950 connected facilities including all local strategic community institutions

Construction is expected to commence promptly following the sale of the Series 2012 Bonds and to be completed by the fall of 2012.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds are set forth below:

Sources of Funds	
The Series 2012 Bonds	$4,225,000
Interest Earnings During Construction(1)	2,330
Total	$4,227,330
Uses of Funds	
Construction of FTTP System(2)	$3,528,759
Construction Management and Professional Services(2)	200,299
Debt Service Reserve Account	358,013
Costs of Issuance Including Underwriter's Discount	140,259
Total	$4,227,330

(1) Assumes a 6 month construction period and an interest rate of .25%.

(2) Based on estimates by Spectrum.

RATING

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") has assigned the Series 2012 Bonds the rating of "A." Generally, a rating agency bases its rating on the information and material furnished to it and on investigations, studies and assumptions of its own. There is no assurance that a rating will continue for any given period of time or that it may not be lowered or withdrawn entirely by the rating agency. Such lowering or withdrawal may have an adverse effect on the market price of the Series 2012 Bonds. An explanation of the significance of ratings may be obtained only from S&P at the following address: Standard & Poor's Corporation, 55 Water Street, New York, New York 10041.

APPROVAL OF LEGALITY

Legal matters incident to the authorization, issuance and sale of the Series 2012 Bonds are subject to the approving legal opinion of Thompson Coburn LLP, Bond Counsel, whose approving opinion will be furnished upon the delivery of the Series 2012 Bonds. In its capacity as Bond Counsel, Thompson Coburn LLP has reviewed the information under the portions of this Official Statement captioned "THE SERIES 2012 BONDS," "APPROVAL OF LEGALITY," "TAX MATTERS," "CONTINUING DISCLOSURE UNDERTAKING," "APPENDIX B- DEFINITIONS OF WORDS AND TERMS AND SUMMARY OF THE BOND ORDINANCE," and APPENDIX D-FORM OF OPINION OF BOND COUNSEL. Bond Counsel accordingly expresses no opinion as to the accuracy or sufficiency of other portions of this Official Statement or as to the financial statements contained herein.

TAX MATTERS

Tax Exemption

The opinion of Thompson Coburn LLP, Bond Counsel, to be delivered upon the issuance of the Series 2012 Bonds will state that, under existing law, interest on the Series 2012 Bonds is excluded from gross income for federal income tax purposes.

Bond Counsel's opinion will be subject to the condition that the City comply with all requirements of the Code that must be satisfied in order that interest on the Series 2012 Bonds be, and continue to be, excluded from gross income for federal income tax purposes. The City is to covenant in the Tax Compliance Agreement to comply with all such requirements. In addition, Bond Counsel will rely on representations by the City and others, with respect to matters solely within their knowledge, which Bond

Counsel has not independently verified. Failure to comply with the requirements of the Code (including due to the foregoing representations being determined to be inaccurate or incomplete) may cause interest on the Series 2012 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2012 Bonds. Bond Counsel has not been retained to monitor compliance with requirements such as described above subsequent to the issuance of the Series 2012 Bonds. In addition, the Ordinance does not require the City to redeem the Series 2012 Bonds or to pay any additional interest or penalty in the event that interest on the Series 2012 Bonds becomes taxable.

In addition, the opinion of Bond Counsel will state that, under existing law, interest on the Series 2012 Bonds is not a specific item of tax preference for purposes of the federal alternative minimum tax on corporations and other taxpayers, including individuals. However, interest on the Series 2012 Bonds is included in a corporate taxpayer's adjusted current earnings for purposes of determining its federal alternative minimum tax liability. Furthermore, the opinion of Bond Counsel will state that, under existing law, the Series 2012 Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code (relating to financial institution deductibility of interest expense).

Except as stated above, the opinion of Bond Counsel will express no opinion as to any federal, state or local tax consequences arising with respect to the Series 2012 Bonds.

Bond Counsel's opinions are based on Bond Counsel's knowledge of facts as of the date thereof. Further, Bond Counsel's opinions are based on existing legal authorities, cover certain matters not directly addressed by such authorities and represent Bond Counsel's legal judgment as to the proper treatment of the Series 2012 Bonds for federal income tax purposes. Such opinions are not a guarantee of result and are not binding on the Service or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Service. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur.

Premium

An amount equal to the excess of the purchase price of a Series 2012 Bond over its stated redemption price at maturity constitutes amortizable bond premium on such Series 2012 Bond. A purchaser of a Series 2012 Bond generally must amortize any premium over such Series 2012 Bond's term using constant yield principles, based on the purchaser's yield on the Series 2012 Bond to maturity; provided that the premium must be amortized over the period to a call date with respect to the Series 2012 Bond, based on the purchaser's yield on the Series 2012 Bond to such call date, if the call by the City on such date would minimize the purchaser's yield on the Series 2012 Bond. As premium is amortized, the purchaser's basis in such Series 2012 Bond (and the amount of tax-exempt stated interest received) will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2012 Bond prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Owners of Series 2012 Bonds who purchase at a premium (whether at the time of initial issuance or subsequent thereto) should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to other federal, state, local and foreign tax consequences of owning or disposing of such Series 2012 Bonds.

Market Discount

If a Series 2012 Bond is purchased at any time for a price that is less than the Series 2012 Bond's stated redemption price at maturity, in the case of a Series 2012 Bond the purchaser will be treated as having purchased such Series 2012 Bond at a "market discount," unless such market discount is less than a statutory de minimis amount). Under the market discount rules, an owner of a Series 2012 Bond will be required to treat any principal payment on, or any gain realized on the sale, exchange, retirement or other disposition (including certain nontaxable dispositions such as gifts) of, such Series 2012 Bond as ordinary income to the extent of the market discount which has previously not been included in gross income and is treated as having accrued on such Series 2012 Bond at the time of such payment or disposition. An owner of a Series 2012 Bond may instead elect to include market discount in gross income each taxable year as it accrues with respect to all debt instruments (including a Series 2012 Bond) acquired in the taxable year for which the election is made. Such election would apply to the taxable year for which it is made and for all subsequent taxable years and could be revoked only with the consent of the Service. The accrued market discount on a Series 2012 Bond is generally determined on a ratable basis, unless the owner of the Series 2012 Bond elects with respect to such Series 2012 Bond to determine accrued market discount under a constant yield method similar to that applicable to original issue discount.

The applicability of the market discount rules may adversely affect the liquidity or secondary market price of a Series 2012 Bond. Owners of Series 2012 Bonds should consult their own tax advisors regarding the potential implications of the market discount rules with respect to the Series 2012 Bonds.

Bank Qualified Bonds

The Code prohibits the deduction by a bank or other financial institution of interest expense allocable to tax-exempt interest, such as interest on the Series 2012 Bonds. A limited exception to this provision generally permits an 80% deduction to a financial institution for interest expense allocable to "qualified tax-exempt obligations" under Section 265(b)(3) of the Code. The opinion of Bond Counsel to be delivered upon the issuance of the Series 2012 Bonds will state that, under existing law and based on the representations and certifications of the City with respect to the qualification of the Series 2012 Bonds as "qualified tax-exempt obligations," the Series 2012 Bonds are "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Collateral Tax Consequences

Prospective purchasers of the Series 2012 Bonds should be aware that the ownership of the Series 2012 Bonds may result in other federal (and, in some cases, state and local) income tax consequences to certain taxpayers, including, without limitation, financial institutions, insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers who have incurred or continued indebtedness to purchase or carry, or have paid or incurred certain expenses allocated to, the Series 2012 Bonds, individuals who may be eligible for the earned income credit, owners who dispose of any Series 2012 Bond prior to its stated maturity (whether by sale or otherwise) and owners who purchase any Series 2012 Bond at a price different from its initial offering price. All prospective purchasers of the Series 2012 Bonds should consult their own tax advisors as to the applicability and the impact of any other tax consequences (which may depend upon their particular tax status or other tax items), as well as to the treatment of interest on the Series 2012 Bonds under state or local laws.

Under the Code, all taxpayers are required to report on their federal income tax returns the amount of interest received or accrued during the year that is excluded from gross income for federal income tax purposes. This requirement applies to interest on all tax-exempt obligations, including, but not limited to, the Series 2012 Bonds. Also, the Code requires the reporting by payors of tax-exempt interest in a manner similar to that for interest on taxable obligations. Generally, payors (including paying agents and other middlemen and nominees) of tax-exempt interest (such as interest on the Series 2012 Bonds) to non-corporate payees are subject to federal income tax information return and payee statement reporting and recordkeeping requirements. Also, as to payor reportable payments of tax-exempt interest (such as payments to non-corporate payees of interest on the Series 2012 Bonds), the general rules of federal income tax backup withholding will apply to such payments, unless the payor obtains from the payee a completed, certified Form W-9, Request for Taxpayer Identification Number and Certification.

Federal, state or local legislation, if enacted in the future, may cause interest on the Series 2012 Bonds to be subject, directly or indirectly, to federal income taxation or otherwise adversely affect the federal, state or local tax consequences of ownership or disposition of, and, whether or not enacted, may adversely affect the value and liquidity of, the Series 2012 Bonds.

FINANCIAL ADVISOR

WM Financial Strategies, St. Louis, Missouri, a registered Municipal Advisor with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board, is employed as Financial Advisor to the City to render certain professional services, including advising the City on a plan of financing and assisting in the preparation of the Official Statement for the sale of the Series 2012 Bonds.

UNDERWRITING

Edward D. Jones & Co., L.P., St. Louis, Missouri (the "Underwriter") has agreed to purchase the Series 2012 Bonds from the City at a price equal to $4,150,687.50 (which is equal to the principal amount of the Series 2012 Bonds less an underwriting discount of $74,312.50). The Series 2012 Bonds may be offered and sold to certain dealers and others at prices lower than the initial public offering prices, stated on the cover of this Official Statement and such initial offering prices may be changed from time to time.

NO LITIGATION CERTIFICATE

Simultaneously with the delivery of and payment for the Series 2012 Bonds, the Mayor, acting on behalf of the City, will furnish to the Underwriter a certificate which shall state, among other things, that there is no controversy, suit or other proceeding of any kind pending or to his knowledge, threatened in any court (either State or Federal) restraining or enjoining the issuance or delivery of the Series 2012 Bonds or questioning (i) the proceedings under which the Series 2012 Bonds are to be issued, (ii) the validity of the Series 2012 Bonds, (iii) the pledge of the City of the moneys under the Bond Ordinance, or (iv) the legal existence of the City or the title to office of the present officials of the City.

CONTINUING DISCLOSURE UNDERTAKING

The Undertaking

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission ("SEC"), the City has agreed to provide:

(i) certain annual financial information and operating data, including audited financial statements, information generally consistent with the information contained in this Official Statement under the captions "THE CITY OF HIGHLAND," "THE CITY'S FINANCES," and "THE ELECTRIC SYSTEM," and information with respect to litigation if, in the judgment of the City, such litigation would have a material adverse affect on the financial condition of the City. Such information shall be made available beginning on or prior to November 1, 2012 and on or prior to November 1 of each year thereafter.

No later than 10 Business Days after the occurrence of any of the following events, the City shall give, or cause to be given to the MSRB, through EMMA, notice of the occurrence of any of the following events with respect to the Series 2012 Bonds ("Material Events"):

(1) principal and interest payment delinquencies;
(2) non-payment related defaults, if material;
(3) modifications to rights of Bond holders, if material;
(4) Bond calls, if material, and tender offers;
(5) defeasances;
(6) rating changes;

(7) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Forms 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2012 Bonds, or other material events affecting the tax-exempt status of the Series 2012 Bonds;

(8) unscheduled draws on debt service reserves reflecting financial difficulties;

(9) unscheduled draws on credit enhancements reflecting financial difficulties;

(10) substitution of credit or liquidity providers, or their failure to perform;

(11) release, substitution or sale of property securing repayment of the Series 2012 Bonds, if material;

(12) bankruptcy, insolvency, receivership or similar event of the City or the Authority;

(13) the consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) appointment of a successor or additional trustee or the change of name of the Trustee, if material.

The City may also, from time to time, choose to provide notice of other events or matters, but the City does not undertake to commit to provide any such notice of any event or matter except those indicated herein.

The foregoing information, data and notices can be obtained from: the City's Director of Finance, as dissemination agent, at the Highland City Hall, 1115 Broadway, Highland, Illinois 62249, (618) 654-9891.

The City may amend its disclosure obligations provided that the City receives an opinion from nationally recognized bond counsel to the effect that such modifications are in compliance with the Rule.

If the City fails to comply with its disclosure obligations, any holder or Beneficial Owner of the Series 2012 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations. A default by the City in its disclosure obligations shall not be deemed a default under the Bond Ordinance authorizing the issuance of the Series 2012 Bonds and the sole remedy shall be an action to compel performance.

Prior Compliance

The City has complied with its prior continuing disclosure obligations under Rule 15c2-12.

CERTIFICATION OF OFFICIAL STATEMENT

Simultaneously with the delivery of the Series 2012 Bonds, the Mayor, acting on behalf of the City, will furnish to the Underwriter a certificate which shall state, among other things, that to the best of his knowledge and belief, this Official Statement (and any amendment or supplement hereto) as of the date of sale and as of the date of delivery of the Series 2012 Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact required to be stated therein or necessary to make the statements herein, in light of the circumstances under which they were made, not misleading in any material respect.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Series 2012 Bonds. Any statement made in this Official Statement involving matters of opinion is intended merely as an opinion and not as a representation of fact. The information and expressions of opinion contained herein 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 in the affairs of the City since the date hereof.

CITY OF HIGHLAND, ILLINOIS

BY: /S/ Joseph R. Michaelis, Mayor

APPENDIX A

CITY OF HIGHLAND, ILLINOIS
FINANCIAL STATEMENTS

April 30, 2011

The financial statements presented within this Appendix A have been extracted from the City's annual financial statements for the year ended April 30, 2011. The statements include supplemental information and the auditor's report which are not included herein. Copies of the annual financial statements, in their entirety, and the budget for the fiscal year ending April 30, 2012 are available from the City.

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CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF NET ASSETS

	GOVERNMENTAL ACTIVITIES APRIL 30, 2011	GOVERNMENTAL ACTIVITIES APRIL 30, 2010	BUSINESS-TYPE ACTIVITIES APRIL 30, 2011	BUSINESS-TYPE ACTIVITIES APRIL 30, 2010	TOTAL APRIL 30, 2011	TOTAL APRIL 30, 2010
ASSETS						
Current Assets						
Cash And Investments	$ 10,348,838	$ 10,233,809	$ 6,932,572	$ 6,874,358	$ 17,281,410	$ 17,108,167
Receivables (Net, Where Applicable Of Allowance For Uncollectibles):						
Property Taxes	3,134,111	2,991,202			3,134,111	2,991,202
Replacement Tax Receivable	23,879	20,457			23,879	20,457
Accounts Receivable	443,123	470,917	639,183	496,862	1,082,306	967,779
Income Tax Receivable	103,855	88,371			103,855	88,371
Sales Tax Receivable	563,139	570,555			563,139	570,555
Unbilled Revenue			1,215,682	1,126,953	1,215,682	1,126,953
Due From Other Fund				60,000		60,000
Other	119,579	126,737	27,951	29,770	147,530	156,507
Prepaid Expenses	209,253	184,255	173,801	158,544	383,054	342,799
Restricted Assets:						
Cash And Investments	352,605	4,862,876	5,392,678	10,378,058	5,745,283	15,240,934
Capital Assets, (Net Of Accumulated Depreciation)	35,371,421	27,442,714	32,953,230	28,799,798	68,324,651	56,242,512
Other Assets, (Net Of Accumulated Amortization)	598,497	597,057	351,722	394,039	950,219	991,096
Total Assets	$ 51,268,300	$ 47,588,950	$ 47,686,819	$ 48,318,382	$ 98,955,119	$ 95,907,332
LIABILITIES						
Current Liabilities:						
Accounts Payable	$ 443,348	$ 366,784	$ 1,604,149	$ 1,463,599	$ 2,047,497	$ 1,830,383
Accrued Salaries And Benefits	105,604	101,601	55,191	47,400	160,795	149,001
Due To Other Fund		60,000				60,000
Accrued Interest	112,346	123,104	201,330	175,942	313,676	299,046
Customer Deposits			59,729	57,857	59,729	57,857
Premium On Revenue Bonds	8,046	9,096	7,222	8,743	15,268	17,839
Deferred Property Taxes	3,134,111	2,991,202			3,134,111	2,991,202
Long-Term Liabilities						
Portion Due Or Payable Within One Year:						
Bonds Payable	1,130,000	1,075,000	700,000	830,000	1,830,000	1,905,000
Notes Payable			371,687	442,157	371,687	442,157
Maintenance Agreement Payable			154,827	83,198	154,827	83,198
Portion Due Or Payable After One Year:						
Compensated Absences	555,459	512,952	323,536	289,983	878,995	802,935
Other Post Employment Benefits Payable	96,226	60,618	35,729	22,508	131,955	83,126
Bonds Payable	13,524,367	11,455,000	11,120,000	11,820,000	24,644,367	23,275,000
Notes Payable			2,468,680	2,840,367	2,468,680	2,840,367
Long-Term Accrued Interest	75,726				75,726	
Maintenance Agreement Payable			551,204	227,770	551,204	227,770
Total Liabilities	19,185,233	16,755,357	17,653,284	18,309,524	36,838,517	35,064,881
NET ASSETS						
Invested In Capital Assets, Net Of Related Debt	20,717,054	14,912,714	17,586,832	12,556,306	38,303,886	27,469,020
Restricted For:						
Maintenance And Upkeep	680,830	695,336			680,830	695,336
Long-Term Debt	965,357	1,209,961	4,445,003	9,331,089	5,410,360	10,541,050
Building Construction And Improvements	799,792	5,303,566			799,792	5,303,566
Unrestricted	8,920,034	8,712,016	8,001,700	8,121,463	16,921,734	16,833,479
Total Net Assets	32,083,067	30,833,593	30,033,535	30,008,858	62,116,602	60,842,451
Total Liabilities And Net Assets	$ 51,268,300	$ 47,588,950	$ 47,686,819	$ 48,318,382	$ 98,955,119	$ 95,907,332

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants And Contributions	Net (Expense) Revenue And Changes In Net Assets — Primary Government: Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
General Government	$ 1,435,118	$ 1,498,597	$ 4,658	$ 68,137	$	$ 68,137
Public Safety	4,156,903	924,218	500	(3,232,185)		(3,232,185)
Highways And Streets	1,818,335		149	(1,818,186)		(1,818,186)
Culture And Recreation	2,454,056	961,523	78,645	(1,413,888)		(1,413,888)
Economic Development	348,201			(348,201)		(348,201)
Employer's Contribution To Retirement Fund	679,285			(679,285)		(679,285)
Interest On Long-Term Debt	547,108			(547,108)		(547,108)
Total Governmental Activities	11,439,006	3,384,338	83,952	(7,970,716)	0	(7,970,716)
Business-Type Activities:						
Electric	13,442,194	13,033,343			(408,851)	(408,851)
Water	2,357,434	2,056,911			(300,523)	(300,523)
Sewer	1,963,479	1,752,109			(211,370)	(211,370)
Other Programs	1,297,036	1,006,998			(290,038)	(290,038)
Total Business-Type Activities	19,060,143	17,849,361	0	0	(1,210,782)	(1,210,782)
Total Primary Government	$ 30,499,149	$ 21,233,699	$ 83,952	(7,970,716)	(1,210,782)	(9,181,498)
General Revenues:						
Taxes:						
Property Taxes, Levied For General Purposes				3,078,983		3,078,983
Intergovernmental				5,664,221		5,664,221
Interest And Miscellaneous Income				636,986	1,075,459	1,712,445
Transfers				(160,000)	160,000	0
Total General Revenues				9,220,190	1,235,459	10,455,649
Change In Net Assets				1,249,474	24,677	1,274,151
Net Assets Beginning (Restated)				30,833,593	30,008,858	60,842,451
Net Assets Ending				$ 32,083,067	$ 30,033,535	$ 62,116,602

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants And Contributions	Net (Expense) Revenue And Changes In Net Assets — Primary Government: Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
General Government	$ 1,294,766	$ 1,566,352	$ 11,800	$ 283,386	$	$ 283,386
Public Safety	4,190,746	905,245	1,950	(3,283,551)		(3,283,551)
Highways And Streets	2,764,320		149,565	(2,614,755)		(2,614,755)
Culture And Recreation	2,262,808	962,569	42,574	(1,257,665)		(1,257,665)
Economic Development	143,942			(143,942)		(143,942)
Employer's Contribution To Retirement Fund	632,887			(632,887)		(632,887)
Interest On Long-Term Debt	509,259			(509,259)		(509,259)
Total Governmental Activities	11,798,728	3,434,166	205,889	(8,158,673)	0	(8,158,673)
Business-Type Activities:						
Electric	11,717,265	11,715,095			(2,170)	(2,170)
Water	2,377,307	2,054,813			(322,494)	(322,494)
Sewer	1,917,267	1,762,689			(154,578)	(154,578)
Other Programs	1,014,332	1,031,556			17,224	17,224
Total Business-Type Activities	17,026,171	16,564,153	0	0	(462,018)	(462,018)
Total Primary Government	$ 28,824,899	$ 19,998,319	$ 205,889	(8,158,673)	(462,018)	(8,620,691)
General Revenues:						
Taxes:						
Property Taxes, Levied For General Purposes				2,990,932		2,990,932
Intergovernmental				5,113,111		5,113,111
Interest and Miscellaneous Income				945,658	569,829	1,515,487
Transfers				77,063	(77,063)	0
Total General Revenues				9,126,764	492,766	9,619,530
Change In Net Assets				968,091	30,748	998,839
Net Assets Beginning (Restated)				29,865,502	29,978,110	59,843,612
Net Assets Ending (Restated)				$ 30,833,593	$ 30,008,858	$ 60,842,451

CITY OF HIGHLAND, ILLINOIS

BALANCE SHEETS
GOVERNMENTAL FUNDS
APRIL 30, 2011

	GENERAL CORPORATE	CITY PROPERTY REPLACEMENT	AMBULANCE	STREET IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash And Investments	$ 2,398,670	$ 4,572,399	$ 358,708	$ 963,412	$ 2,055,649	$ 10,348,838
Receivables (Net, Where Applicable Of Allowance For Uncollectibles):						
Property Taxes	1,281,849		426,850		1,425,412	3,134,111
Replacement Tax Receivable	16,289		2,247		5,343	23,879
Accounts Receivable	62,882		380,241			443,123
Income Tax Receivable	103,855					103,855
Sales Tax Receivable	360,256			202,883		563,139
Other	83,236	10,593	831	2,474	22,445	119,579
Due From Other Fund		189,000			131,907	320,907
Prepaid Expenses	85,040		2,724		121,489	209,253
Restricted Cash				352,605		352,605
Total	$ 4,392,077	$ 4,771,992	$ 1,171,601	$ 1,521,374	$ 3,762,245	$ 15,619,289
LIABILITIES						
Liabilities:						
Accounts Payable	$ 197,080	$	$ 9,244	$ 232,191	$ 4,833	$ 443,348
Accrued Salaries And Benefits	74,706		13,081	1,022	16,795	105,604
Due To Other Fund	100,000				220,907	320,907
Deferred Revenue	1,281,849		426,850		1,425,412	3,134,111
Total Liabilities	1,653,635	0	449,175	233,213	1,667,947	4,003,970
FUND BALANCES						
Reserved For:						
Maintenance And Upkeep					680,830	680,830
Building Construction And Improvements				322,804	476,988	799,792
Unreserved, Reported In:						
General Corporate Fund	2,738,442					2,738,442
Special Revenue Funds			722,426		1,042,300	1,764,726
Capital Projects Funds		4,771,992			(105,820)	4,666,172
Debt Service Funds				965,357		965,357
Total Fund Balance	2,738,442	4,771,992	722,426	1,288,161	2,094,298	11,615,319
Total	$ 4,392,077	$ 4,771,992	$ 1,171,601	$ 1,521,374	$ 3,762,245	$ 15,619,289

CITY OF HIGHLAND, ILLINOIS

BALANCE SHEETS
GOVERNMENTAL FUNDS
APRIL 30, 2010

	GENERAL CORPORATE	CITY PROPERTY REPLACEMENT	AMBULANCE	STREET IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash And Investments	$ 2,329,121	$ 4,366,334	$ 430,919	$ 1,206,023	$ 1,901,412	$ 10,233,809
Receivables (Net, Where Applicable Of Allowance For Uncollectibles):						
Property Taxes	1,309,866		416,346		1,264,990	2,991,202
Replacement Tax Receivable	13,938		1,923		4,596	20,457
Accounts Receivable	201,941		268,976			470,917
Income Tax Receivable	88,371					88,371
Sales Tax Receivable	360,060			210,495		570,555
Other	82,872	13,151	1,636	5,176	23,902	126,737
Due From Other Fund		82,000				82,000
Prepaid Expenses	60,630		2,085		121,540	184,255
Restricted Cash				4,862,876		4,862,876
Total	$ 4,446,799	$ 4,461,485	$ 1,121,885	$ 6,284,570	$ 3,316,440	$ 19,631,179
LIABILITIES						
Liabilities:						
Accounts Payable	$ 123,000	$	$ 5,459	$ 237,486	$ 839	$ 366,784
Accrued Salaries And Benefits	74,098		11,946	970	14,587	101,601
Due To Other Fund	60,000				82,000	142,000
Deferred Revenue	1,309,866		416,346		1,264,990	2,991,202
Total Liabilities	1,566,964	0	433,751	238,456	1,362,416	3,601,587
FUND BALANCES						
Reserved For:						
Maintenance And Upkeep					695,336	695,336
Building Construction And Improvements				4,836,153	467,413	5,303,566
Unreserved, Reported In:						
General Corporate Fund	2,879,835					2,879,835
Special Revenue Funds			688,134		811,455	1,499,589
Capital Projects Funds		4,461,485			(20,180)	4,441,305
Debt Service Funds				1,209,961		1,209,961
Total Fund Balance	2,879,835	4,461,485	688,134	6,046,114	1,954,024	16,029,592
Total	$ 4,446,799	$ 4,461,485	$ 1,121,885	$ 6,284,570	$ 3,316,440	$ 19,631,179

CITY OF HIGHLAND, ILLINOIS

RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET ASSETS
APRIL 30, 2011
WITH COMPARATIVE AMOUNTS FOR APRIL 30, 2010

	2011		2010	
Total fund balances for governmental funds		$ 11,615,319		$ 16,029,592
Total net assets reported for governmental activities in the Statements of Net Assets is different because:				
Capital and intangible assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:				
Land	$ 7,648,515		$ 3,471,272	
Construction In Progress	8,111,756		4,001,503	
Infrastructure, net of accumulated depreciation	11,210,570		11,472,166	
Buildings and improvements, net of accumulated depreciation	5,916,024		6,192,001	
Other improvements, net of accumulated depreciation	1,869,247		1,614,160	
Equipment, net of accumulated depreciation	615,309		691,612	
		35,371,421		27,442,714
Bond Issuance Costs, net of accumulated amortization		598,497		597,057
Certain liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets. Those liabilties consist of:				
Accrued interest	$ (188,072)		$ (123,104)	
Bonds and notes payable	(14,654,367)		(12,530,000)	
Bond premium, net of accumulated amortization	(8,046)		(9,096)	
Other Post Employment Benefits	(96,226)		(60,618)	
Compensated absences	(555,459)		(512,952)	
		(15,502,170)		(13,235,770)
Total net assets of governmental activities		$ 32,083,067		$ 30,833,593

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED APRIL 30, 2011

	GENERAL CORPORATE	CITY PROPERTY REPLACEMENT	AMBULANCE	STREET IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
General Property Taxes	$ 1,412,921		$ 412,479		$ 1,253,583	$ 3,078,983
Corporate Personal Property Replacement Taxes	120,792		15,365		44,960	181,117
Intergovernmental	3,671,863		179,351	$ 1,336,366	295,524	5,483,104
Charges For Services	2,093,282		924,218		19,889	3,037,389
Licenses, Permits And Other Taxes	222,856					222,856
Fines And Forfeitures	34,755				4,579	39,334
Revenue From Use Of Property	84,759					84,759
Miscellaneous And Interest Income	351,879	$ 153,924	20,274	97,464	97,397	720,938
Total Revenues	7,993,107	153,924	1,551,687	1,433,830	1,715,932	12,848,480
Expenditures:						
Current-						
General Government	1,134,206				253,124	1,387,330
Public Safety	2,689,423		1,608,561			4,297,984
Highways And Streets	986,021			8,225,669	236,458	9,448,148
Culture And Recreation	1,911,754				610,982	2,522,736
Economic Development	338,300				9,901	348,201
Employer's Contribution To Retirement Fund					679,285	679,285
Debt Service Expenditures-						
Bond Issue Costs				60,244		60,244
Principal Retirement	300,000			775,000		1,075,000
Interest And Fixed Charges	152,955			330,237		483,192
Total Expenditures	7,512,659	0	1,608,561	9,391,150	1,789,750	20,302,120
Excess (Deficiency) Of Revenues Over (Under) Expenditures	480,448	153,924	(56,874)	(7,957,320)	(73,818)	(7,453,640)
Other Financing Sources (Uses):						
Bond Proceeds				3,199,367		3,199,367
Operating Transfers In	1,193,929	1,180,000	231,166		283,200	2,888,295
Operating Transfers Out	(1,815,770)	(1,023,417)	(140,000)		(69,108)	(3,048,295)
Total Other Financing Sources (Uses)	(621,841)	156,583	91,166	3,199,367	214,092	3,039,367
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Uses	(141,393)	310,507	34,292	(4,757,953)	140,274	(4,414,273)
Fund Balance, Beginning Of Year (Restated)	2,879,835	4,461,485	688,134	6,046,114	1,954,024	16,029,592
Fund Balance, End Of Year	$ 2,738,442	$ 4,771,992	$ 722,426	$ 1,288,161	$ 2,094,298	$ 11,615,319

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED APRIL 30, 2010

	GENERAL CORPORATE	CITY PROPERTY REPLACEMENT	AMBULANCE	STREET IMPROVEMENT	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:						
General Property Taxes	$ 1,395,628		$ 427,397		$ 1,167,908	$ 2,990,933
Corporate Personal Property Replacement Taxes	96,981		12,183		37,385	146,549
Intergovernmental	3,235,122		171,433	$ 1,310,534	255,765	4,972,854
Charges For Services	2,125,553		905,245		28,494	3,059,292
Licenses, Permits And Other Taxes	225,803					225,803
Fines And Forfeitures	49,769				4,923	54,692
Revenue From Use Of Property	94,381					94,381
Miscellaneous And Interest Income	492,675	$ 158,227	23,694	355,448	115,211	1,145,255
Total Revenues	7,715,912	158,227	1,539,952	1,665,982	1,609,686	12,689,759
Expenditures:						
Current-						
General Government	1,070,553				183,054	1,253,607
Public Safety	2,620,202		1,327,069			3,947,271
Highways And Streets	1,298,375			3,074,793	271,412	4,644,580
Culture And Recreation	1,990,262				363,925	2,354,187
Economic Development	109,946				10,303	120,249
Employer's Contribution To Retirement Fund					632,887	632,887
Debt Service Expenditures-						
Principal Retirement	295,000			357,850		652,850
Interest And Fixed Charges	161,585			720,862		882,447
Total Expenditures	7,545,923	0	1,327,069	4,153,505	1,461,581	14,488,078
Excess (Deficiency) Of Revenues Over (Under) Expenditures	169,989	158,227	212,883	(2,487,523)	148,105	(1,798,319)
Other Financing Sources (Uses):						
Operating Transfers In	1,155,306	923,500			44,000	2,122,806
Operating Transfers Out	(1,220,202)	(307,000)	(177,500)		(341,041)	(2,045,743)
Total Other Financing Sources (Uses)	(64,896)	616,500	(177,500)	0	(297,041)	77,063
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Uses	105,093	774,727	35,383	(2,487,523)	(148,936)	(1,721,256)
Fund Balance, Beginning Of Year (Restated)	2,774,742	3,686,758	652,751	8,533,637	2,102,960	17,750,848
Fund Balance, End Of Year	$ 2,879,835	$ 4,461,485	$ 688,134	$ 6,046,114	$ 1,954,024	$ 16,029,592

<u>CITY OF HIGHLAND, ILLINOIS</u>

RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 2011
WITH COMPARATIVE AMOUNTS FOR APRIL 30, 2010

	2011	2010
Net change in fund balances - total governmental funds	$ (4,414,273)	$ (1,721,256)
Amounts reported for governmental activities in the Statements of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation expense in the current period.	7,928,704	1,810,292
Governmental funds report bond issue costs as expenditures while governmental activities report amortization expense to allocate those expenditures over the life of the bonds. Also, bond premiums are amortized over the life of the bonds and this amortization reduces the amount of interest expense on the bonds. This amount represents the net effect of the amortization of bond issue costs and bond premiums.	2,490	(55,921)
Proceeds from new bond issues are recorded as revenues in the governmental funds but increase liabilities in the Statement of Net Assets	(3,199,367)	0
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(107,472)	(19,406)
Other post employment benefits is a liability held by the City that is not due and payable in the current period and accordingly are not reported as fund liabilities.	(35,608)	(60,618)
Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statements of Net Assets.	1,075,000	1,015,000
Changes in Net Assets of Governmental Activities	$ 1,249,474	$ 968,091

CITY OF HIGHLAND, ILLINOIS

BALANCE SHEETS
ENTERPRISE FUNDS
APRIL 30, 2011

	LIGHT AND POWER	WATER	SEWER	SOLID WASTE	TOTALS
ASSETS					
Current Assets:					
Cash And Investments	$ 4,581,161	$ 932,359	$ 1,314,180	$ 104,872	$ 6,932,572
Receivables:					
Accounts	464,319	65,250	66,266	43,348	639,183
Due From Other Funds	70,000	30,000			100,000
Unbilled Revenue	857,808	157,208	132,173	68,493	1,215,682
Other Receivable	15,104	2,160	3,044	7,643	27,951
Prepaid Expenses	103,912	39,634	29,807	448	173,801
Total Current Assets	6,092,304	1,226,611	1,545,470	224,804	9,089,189
Restricted Assets:					
Cash And Investments	5,392,678				5,392,678
Capital Assets (Net Of Accumulated Depreciation)	17,931,818	8,955,454	6,065,958		32,953,230
Other Assets (Net Of Accumulated Amortization)	351,722				351,722
Total Noncurrent Assets	23,676,218	8,955,454	6,065,958	0	38,697,630
Total Assets	$ 29,768,522	$ 10,182,065	$ 7,611,428	$ 224,804	$ 47,786,819
LIABILITIES AND NET ASSETS					
Current Liabilities (Payable From Current Assets):					
Accounts Payable	$ 1,429,452	$ 59,456	$ 51,677	$ 63,564	$ 1,604,149
Accrued Interest Payable			13,384		13,384
Current Portion Notes Payable			371,687		371,687
Current Portion Maintenance Agreement Payable		154,827			154,827
Accrued Salaries And Benefits	33,189	11,976	10,026		55,191
Premium On Revenue Bonds	7,222				7,222
Due to Other Funds				100,000	100,000
Total Current Liabilities (Payable From Current Assets)	1,469,863	226,259	446,774	163,564	2,306,460
Current Liabilities (Payable From Restricted Assets):					
Customer Deposits	59,729				59,729
Current Portion Revenue Bonds	700,000				700,000
Accrued Interest On Revenue Bonds	187,946				187,946
Total Current Liabilities (Payable From Restricted Assets)	947,675	0	0	0	947,675
Long-Term Liabilities:					
Revenue Bonds (Net Of Current Portion)	11,120,000				11,120,000
Notes Payable (Net of Current Portion)			2,468,680		2,468,680
Maintenance Agreement Payable (Net of Current Portion)		551,204			551,204
Compensated Absences	200,919	63,629	58,988		323,536
Other Post Employment Benefits Payable	21,017	7,356	7,356		35,729
Total Long-Term Liabilities	11,341,936	622,189	2,535,024	0	14,499,149
Total Liabilities	13,759,474	848,448	2,981,798	163,564	17,753,284
Net Assets:					
Invested In Capital Assets, Net Of Related Debt	6,111,818	8,249,423	3,225,591		17,586,832
Restricted For Long Term Debt	4,445,003				4,445,003
Unrestricted	5,452,227	1,084,194	1,404,039	61,240	8,001,700
Total Net Assets	16,009,048	9,333,617	4,629,630	61,240	30,033,535
Total Liabilities And Net Assets	$ 29,768,522	$ 10,182,065	$ 7,611,428	$ 224,804	$ 47,786,819

CITY OF HIGHLAND, ILLINOIS

BALANCE SHEETS
ENTERPRISE FUNDS
APRIL 30, 2010

	LIGHT AND POWER	WATER	SEWER	SOLID WASTE	TOTALS
ASSETS					
Current Assets:					
Cash And Investments	$ 4,441,061	$ 864,825	$ 1,273,928	$ 294,544	$ 6,874,358
Receivables:					
Accounts	342,186	52,816	63,136	38,724	496,862
Due From Other Funds		60,000			60,000
Unbilled Revenue	777,300	157,476	124,462	67,715	1,126,953
Accrued Interest Receivable	21,681	2,967	4,160	962	29,770
Prepaid Expenses	95,100	38,523	24,921		158,544
Total Current Assets	5,677,328	1,176,607	1,490,607	401,945	8,746,487
Restricted Assets:					
Cash And Investments	10,176,713	201,345			10,378,058
Fixed Assets (Net Of Accumulated Depreciation)	13,311,420	8,698,023	6,790,355		28,799,798
Other Assets (Net Of Accumulated Amortization)	371,663	22,376			394,039
Total Noncurrent Assets	23,859,796	8,921,744	6,790,355	0	39,571,895
Total Assets	$ 29,537,124	$ 10,098,351	$ 8,280,962	$ 401,945	$ 48,318,382
LIABILITIES AND NET ASSETS					
Current Liabilities (Payable From Current Assets):					
Accounts Payable	$ 1,090,227	$ 175,900	$ 122,540	$ 74,932	$ 1,463,599
Accrued Interest Payable			16,831		16,831
Current Portion Note Payable			442,157		442,157
Current Portion Maintenance Agreement Payable		83,198			83,198
Accrued Salaries And Benefits	26,832	11,608	8,960		47,400
Premium On Revenue Bonds	8,743				8,743
Total Current Liabilities (Payable From Current Assets)	1,125,802	270,706	590,488	74,932	2,061,928
Current Liabilities (Payable From Restricted Assets):					
Customer Deposits	57,857				57,857
Current Portion Revenue Bonds	625,000	205,000			830,000
Accrued Interest On Revenue Bonds	158,231	880			159,111
Total Current Liabilities (Payable From Restricted Assets)	841,088	205,880	0	0	1,046,968
Long-Term Liabilities:					
Revenue Bonds (Net Of Current Portion)	11,820,000				11,820,000
Note Payable (Net of Current Portion)			2,840,367		2,840,367
Maintenance Agreement Payable (Net of Current Portion)		227,770			227,770
Compensated Absences	162,225	68,199	59,559		289,983
Other Post Employment Benefits Payable	13,240	4,634	4,634		22,508
Total Long-Term Liabilities	11,995,465	300,603	2,904,560	0	15,200,628
Total Liabilities	13,962,355	777,189	3,495,048	74,932	18,309,524
Net Assets:					
Invested In Capital Assets, Net Of Related Debt	866,420	8,182,055	3,507,831		12,556,306
Restricted For Long Term Debt	9,335,625	(4,536)			9,331,089
Unrestricted	5,372,724	1,143,643	1,278,083	327,013	8,121,463
Total Net Assets	15,574,769	9,321,162	4,785,914	327,013	30,008,858
Total Liabilities And Net Assets	$ 29,537,124	$ 10,098,351	$ 8,280,962	$ 401,945	$ 48,318,382

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED APRIL 30, 2011

	LIGHT AND POWER	WATER	SEWER	SOLID WASTE	TOTALS
Operating Revenues:					
Charges For Services	$ 13,017,061	$ 2,038,761	$ 1,718,736	$ 1,006,844	$ 17,781,402
Connection Fees	16,282	18,150	33,373	154	67,959
Total Operating Revenues	13,033,343	2,056,911	1,752,109	1,006,998	17,849,361
Operating Expenses:					
Personnel Services	1,684,461	708,405	532,035		2,924,901
Contractual Services	1,367,095	381,133	460,206	970,288	3,178,722
Purchase Power (Less Generating Capacity Credit)	8,329,781				8,329,781
Supplies And Materials	374,018	273,832	116,534	326,748	1,091,132
Utilities	93,865	144,362	3,033		241,260
Depreciation And Amortization	1,014,283	839,724	760,937		2,614,944
Total Operating Expenses	12,863,503	2,347,456	1,872,745	1,297,036	18,380,740
Operating Income (Loss)	169,840	(290,545)	(120,636)	(290,038)	(531,379)
Non-Operating Revenues (Expenses):					
Interest Income	336,962	40,427	45,961	3,147	426,497
Miscellaneous	306,168	272,551	9,125	61,118	648,962
Interest Expense	(578,354)	(9,678)	(90,734)		(678,766)
Service Charges	(337)	(300)			(637)
Total Non-Operating Revenues (Expenses)	64,439	303,000	(35,648)	64,265	396,056
Income (Loss) Before Operating Transfers	234,279	12,455	(156,284)	(225,773)	(135,323)
Total Operating Transfers From (To) Other Funds:	200,000	0	0	(40,000)	160,000
Increase (Decrease) In Net Assets	434,279	12,455	(156,284)	(265,773)	24,677
Total Net Assets, Beginning Of Year (Restated)	15,574,769	9,321,162	4,785,914	327,013	30,008,858
Total Net Assets, End Of Year	$ 16,009,048	$ 9,333,617	$ 4,629,630	$ 61,240	$ 30,033,535

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED APRIL 30, 2010

	LIGHT AND POWER	WATER	SEWER	SOLID WASTE	TOTALS
Operating Revenues:					
Charges For Services	$ 11,699,970	$ 2,032,510	$ 1,732,738	$ 1,031,273	$ 16,496,491
Connection Fees	15,125	22,303	29,951	283	67,662
Total Operating Revenues	11,715,095	2,054,813	1,762,689	1,031,556	16,564,153
Operating Expenses:					
Personnel Services	1,200,536	675,365	516,176		2,392,077
Contractual Services	1,552,720	457,915	450,727	1,014,332	3,475,694
Purchase Power (Less Generating Capacity Credit)	7,409,834				7,409,834
Supplies And Materials	235,358	292,862	95,862		624,082
Utilities	87,093	161,488	4,479		253,060
Depreciation And Amortization	989,029	763,243	744,892		2,497,164
Total Operating Expenses	11,474,570	2,350,873	1,812,136	1,014,332	16,651,911
Operating Income (Loss)	240,525	(296,060)	(49,447)	17,224	(87,758)
Non-Operating Revenues (Expenses):					
Interest Income	286,638	48,340	51,207	13,146	399,331
Miscellaneous	18,630	151,270	907	(309)	170,498
Interest Expense	(242,358)	(25,834)	(105,131)		(373,323)
Service Charges	(337)	(600)			(937)
Total Non-Operating Revenues (Expenses)	62,573	173,176	(53,017)	12,837	195,569
Income (Loss) Before Operating Transfers	303,098	(122,884)	(102,464)	30,061	107,811
Total Operating Transfers To Other Funds:	(37,063)	0	0	(40,000)	(77,063)
Increase (Decrease) In Net Assets	266,035	(122,884)	(102,464)	(9,939)	30,748
Total Net Assets, Beginning Of Year (Restated)	15,308,734	9,444,046	4,888,378	336,952	29,978,110
Total Net Assets, End Of Year	$ 15,574,769	$ 9,321,162	$ 4,785,914	$ 327,013	$ 30,008,858

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED APRIL 30, 2011

	LIGHT AND POWER	WATER	SEWER	SOLID WASTE	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received From Customers	$ 13,138,742	$ 2,317,296	$ 1,750,393	$ 1,055,314	$ 18,261,745
Cash Payments For Goods And Services	(9,834,345)	(916,882)	(655,522)	(1,308,852)	(12,715,601)
Cash Payments To Employees	(1,631,633)	(709,885)	(528,818)		(2,870,336)
Net Cash Provided (Used) By Operating Activities	1,672,764	690,529	566,053	(253,538)	2,675,808
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Operating Transfers From (To) Other Funds	200,000			60,000	260,000
Repayment of Loans From Other Funds		30,000			30,000
Net Cash Provided By Non-Capital Financing Activities	200,000	30,000	0	60,000	290,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Interest Paid	(550,497)	(10,858)	(94,181)		(655,536)
Payments For Capital Acquisitions	(5,684,741)	(679,716)	(36,540)		(6,400,997)
Proceeds From (Repayments Of) Loans	(625,000)	(205,000)	(442,157)		(1,272,157)
Net Cash Used By Capital And Related Financing Activities	(6,860,238)	(895,574)	(572,878)	0	(8,328,690)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Receipts Of Interest	343,539	41,234	47,077	3,866	435,716
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	(4,643,935)	(133,811)	40,252	(189,672)	(4,927,166)
CASH AND INVESTMENTS, BEGINNING OF YEAR	14,617,774	1,066,170	1,273,928	294,544	17,252,416
CASH AND INVESTMENTS, END OF YEAR	$ 9,973,839	$ 932,359	$ 1,314,180	$ 104,872	$ 12,325,250
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 169,840	$ (290,545)	$ (120,636)	$ (290,038)	$ (531,379)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided (Used) By Operating Activities:					
Depreciation And Amortization Expense	1,014,283	839,724	760,937		2,614,944
Miscellaneous Revenues (Expenses)	306,168	272,551	9,125	61,118	648,962
Decrease (Increase) In Accounts Receivables	(122,133)	(12,434)	(3,130)	(4,624)	(142,321)
Decrease (Increase) In Unbilled Revenue	(80,508)	268	(7,711)	(778)	(88,729)
Decrease (Increase) In Notes Receivable				(7,400)	(7,400)
Decrease (Increase) in Prepaid Expenses	(8,812)	(1,111)	(4,886)	(448)	(15,257)
Increase (Decrease) In Accounts Payable	339,226	(116,444)	(70,863)	(11,368)	140,551
Increase (Decrease) In Accrued Salaries and Benefits	6,357	368	1,066		7,791
Increase (Decrease) In Compensated Absences	38,694	(4,570)	(571)		33,553
Increase (Decrease) In Customer Deposits	1,872				1,872
Increase (Decrease) In Other Post Employment Benefits	7,777	2,722	2,722		13,221
Total Adjustments	1,502,924	981,074	686,689	36,500	3,207,187
Net Cash Provided (Used) By Operating Activities	$ 1,672,764	$ 690,529	$ 566,053	$ (253,538)	$ 2,675,808

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED APRIL 30, 2010

	LIGHT AND POWER	WATER	SEWER	SOLID WASTE	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash Received From Customers	$ 11,765,116	$ 2,282,212	$ 1,806,150	$ 1,037,427	$ 16,890,905
Cash Payments For Goods And Services	(8,861,327)	(955,534)	(513,115)	(1,076,047)	(11,406,023)
Cash Payments To Employees	(1,182,172)	(659,481)	(505,838)		(2,347,491)
Net Cash Provided (Used) By Operating Activities	1,721,617	667,197	787,197	(38,620)	3,137,391
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:					
Operating Transfers (To) Other Funds	(37,063)			(40,000)	(77,063)
Repayment of Loans From Other Funds		30,000			30,000
Net Cash Provided (Used) By Non-Capital Financing Activities	(37,063)	30,000	0	(40,000)	(47,063)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Interest Paid	(142,639)	(27,823)	(108,451)		(278,913)
Payments For Capital Acquisitions	(1,322,731)	(568,873)	(199,402)		(2,091,006)
Proceeds From (Repayments Of) Loan	8,085,000	(246,802)	(442,656)		7,395,542
Net Cash Provided (Used) By Capital And Related Financing Activities	6,619,630	(843,498)	(750,509)	0	5,025,623
CASH FLOWS FROM INVESTING ACTIVITIES:					
Receipts Of Interest	281,582	48,743	50,494	13,229	394,048
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	8,585,766	(97,558)	87,182	(65,391)	8,509,999
CASH AND INVESTMENTS, BEGINNING OF YEAR	6,032,008	1,163,728	1,186,746	359,935	8,742,417
CASH AND INVESTMENTS, END OF YEAR	$ 14,617,774	$ 1,066,170	$ 1,273,928	$ 294,544	$ 17,252,416
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	$ 240,525	$ (296,060)	$ (49,447)	$ 17,224	$ (87,758)
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:					
Depreciation And Amortization Expense	989,029	763,243	744,892		2,497,164
Miscellaneous Revenues	18,630	151,270	907	(309)	170,498
Decrease (Increase) In Accounts Receivables	14,191	83,817	32,995	7,516	138,519
Decrease (Increase) In Unbilled Revenue	(420)	(7,727)	3,276	(1,336)	(6,207)
Decrease (Increase) Decrease in Prepaid Expenses	17,587	39	6,283		23,909
Increase (Decrease) In Accounts Payable	423,678	(43,269)	37,953	(61,715)	356,647
Increase (Decrease) In Accrued Salaries and Benefits	10,609	2,674	2,135		15,418
Increase (Decrease) In Compensated Absences	(5,485)	8,576	3,569		6,660
Increase (Decrease) In Customer Deposits	33				33
Increase (Decrease) In Other Post Employment Benefits	13,240	4,634	4,634		22,508
Total Adjustments	1,481,092	963,257	836,644	(55,844)	3,225,149
Net Cash Provided (Used) By Operating Activities	$ 1,721,617	$ 667,197	$ 787,197	$ (38,620)	$ 3,137,391

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF NET ASSETS
FIDUCIARY FUND

	POLICEMEN'S PENSION TRUST FUND APRIL 30, 2011	2010
ASSETS		
Cash	$ 188,768	$ 793,003
Receivables:		
Property Taxes, Current Year Levy, Net Of Allowance For Uncollectible Amounts	301,688	355,708
Accounts Receivable		14,194
Interest Receivable	7,936	13,056
Total Receivables	309,624	382,958
Investments:		
Certificates Of Deposit And Interest Bearing Accounts	4,186,044	3,555,834
Mutual Funds	3,575,626	2,775,230
Total Investments	7,761,670	6,331,064
Total Assets	$ 8,260,062	$ 7,507,025
LIABILITIES		
Accounts Payable		500
Deferred Property Taxes	301,688	355,708
Total Liabilities	$ 301,688	$ 356,208
NET ASSETS		
Net Assets Held In Trust For Pension Benefits And Other Purposes	7,958,374	7,150,817
Total Net Assets	$ 8,260,062	$ 7,507,025

CITY OF HIGHLAND, ILLINOIS

STATEMENTS OF CHANGES IN NET ASSETS
FIDUCIARY FUND

	POLICEMEN'S PENSION TRUST FUND YEARS ENDED APRIL 30,	
	2011	2010
Additions:		
General Property Taxes:		
Real Estate	$ 352,403	$ 246,904
Intergovernmental:		
Corporate Personal Property Replacement	6,900	6,900
Miscellaneous:		
Interest	168,875	167,792
Employee Contributions	117,011	126,886
Realized/Unrealized Gain (Loss) On Investments	595,397	892,597
Total Additions	1,240,586	1,441,079
Deductions:		
Benefit Payments	426,049	363,430
Administration	6,980	5,537
Total Deductions	433,029	368,967
Net Increase	807,557	1,072,112
Net Assets, Beginning Of Year (Restated)	7,150,817	6,078,705
Net Assets, End Of Year (Restated)	$ 7,958,374	$ 7,150,817

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The City of Highland, Illinois, was incorporated April 4, 1884. The City is a Non-Home Rule Unit and operates under a managerial council form of government. Under this form of government the City council is legislative, except that it is empowered to approve all expenses and liabilities, and the manager is the administrative and executive head of government.

The accounting policies of the City of Highland conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies:

(a) Principles Used To Determine Scope Of Entity

The City's reporting entity includes the City's governing board and all related organizations for which the City exercises significant influence.

The City has developed criteria to determine whether outside agencies with activities which benefit the citizens of the City should be included within its financial reporting entity. The criteria includes, but is not limited to, whether the City exercises significant influence (which includes financial benefit or burden, appoints a voting majority, ability to significantly impose its will, and fiscal independence).

The City has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the City's financial statements. In addition, the City is not aware of any entity which would exercise such influence which would result in the City being considered a component unit of the entity.

(b) Basis of Accounting And Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City’s reporting entity applies all relevant Governmental Accounting Standards Board pronouncements. Proprietary funds apply guidance by Financial Accounting Standards Board (FASB) Codification Standards originally issued on or before November 30, 1989, unless those standards conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City’s funds are grouped into three broad fund categories and six generic fund types for financial statement presentation purposes. Governmental funds include the general, special revenue, debt service and capital projects funds. Proprietary funds include enterprise funds. The City also has one fiduciary agency fund.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole excluding fiduciary activities such as employee pension plans. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on the net asset's use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments, imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The City reports the following major governmental funds:

General Fund - The government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND FINANCIAL STATEMENTS (CONTINUED)

Special Revenue – Ambulance - The fund that accounts for proceeds of specific revenue sources (other than those for major capital projects) that are restricted legally to expenditures for specified purposes of providing ambulance services.

Capital Projects - City Property Replacement - The fund that accounts for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Projects - Street Improvement - The fund that accounts for the financial resources to be used for the acquisition or construction of major street and infrastructure improvements (other than those financed by proprietary funds and trust funds).

The City reports the following major proprietary funds:

Light and Power Fund - The light and power fund operates the electrical distribution system and includes the development of a fiber-optic system that will provide high-speed internet, television, and telephone services to customers in Highland.

Water Fund - The water fund operates the water distribution system.

Sewer Fund - The sewer fund operates the sewer treatment plant, sewage pumping stations, and collection systems.

Solid Waste Fund - The solid waste fund operates the collection of solid waste pickup.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. The length of time to define available is 60 days or less. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUNDS (CONTINUED)

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available. This concept includes investment earnings, fines and forfeitures, and state-levied locally shared taxes (including motor vehicle fees).

Property taxes and special assessments (in the debt service funds), though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property tax and special assessment receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. They report charges for services and connection fees as operating revenues, and items such as interest income, grants, and other miscellaneous items as non-operating revenues. The economic resource focus determines costs as a means of maintaining capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at each year-end.

FIDUCIARY FUNDS

The City currently has one fiduciary fund. The Policemen’s Pension Trust Fund is used to account for pension assets held by the City in a trustee capacity. This fund is accounted for and reported in a manner similar to proprietary funds since capital maintenance is critical.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Vacation And Sick Leave

Vacation leave is accrued for full-time, temporary employees and supervisors of the City at the rate of one average work week upon completion of the first year of continuous service. These employees are granted two average work weeks following completion of the second year of continuous service through the seventh year. For the eighth through the fourteenth year, three average work weeks are earned and four average work weeks are earned following the fifteenth year and thereafter. Employees may accrue a maximum of 160 working hours of vacation time. Sick leave is accrued for full-time City employees at the rate of 13 days a year. These employees can accumulate 30 days of vested sick pay and an additional 60 days of non-vested sick pay. Terminated employees are compensated for sick leave up to 30 days. The City does not accrue the additional 60 days of sick pay, representing $600,912 of benefits, which is non-vesting. However, for the accrued vacation and vested sick pay days, the City is liable in the approximate amount of $555,459 for payments to qualified employees of the governmental activities and $323,536 for payments to qualified employees of the business-type activities.

(d) Cash And Investments

The City maintains an investment pool that is available for use by all funds, except those of certain special revenue and agency funds. The City maintains a separate accounting of each fund's balance in the pool. Additionally, the City participates in the Illinois Fund. Investment income earned on pooled investments is distributed to the appropriate funds based on the average daily balance of the investments of each fund.

Investments are stated at fair value. Fair value for investments is determined by closing market prices at year-end as reported by the investment custodian. Fair value for the Illinois Fund is the same as the value of fund shares.

All cash and investments of the proprietary funds are considered highly liquid, as these funds participate in the City's investment pool. Consequently, these are considered to be cash and cash equivalents for cash flow purposes.

Restricted cash on the financial statements represents cash for customer deposits, street bonds, fiber bonds, and electric bonds.

(e) Governmental Receivables

Long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables. The City has determined that an allowance for uncollectible receivables is not needed based on prior years' collections.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

(g) Budgets And Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. During the first quarter of the calendar year, the City Manager submits to the City Council a proposed budget for the year commencing May 1 of that year. The City budgets for claims and compensated absences only to the extent expected to be paid in cash. Expenditures, interest, and payroll are budgeted to the extent anticipated to be paid in cash.

2. Public hearings are conducted to obtain taxpayer comments.

3. On April 19, 2010 the budget ordinance was legally enacted. The budget ordinance was legally amended on December 6, 2010 and April 18, 2011.

4. The operating budget for the major governmental and special revenue funds is reflected in the financial statements.

5. The formal budget is adopted and used as a management control device during the year for the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds, Enterprise Funds and Pension and Nonexpendable Trust Funds. Budgetary control is at the total individual fund level and is alternatively achieved through bond indenture provisions for the Debt Service Funds. This allows the City Manager and the Finance Department to transfer budgeted amounts within departments; however, any revisions that alter the total expenditures/expenses of any individual fund, by more than 10% must be approved by the City Council.

   The City files with the county an annual budget ordinance which is the legally required document that levies a tax on the owners of property located in the City. All appropriations lapse at year end. The budget is the legal document that limits the spending capacity by fund of the City for its services and operations.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by City legislation or external restrictions by other governments, creditors or grantors.

(i) Capital Assets And Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in government-wide statements. Infrastructure such as streets, traffic signals and signs are capitalized in the government-wide statements. The valuation basis for general capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated fixed assets are reported at their fair market value as of the date received. The City maintains a capitalization threshold of $15,000.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 3 to 25 years.

(j) Interfund Activity

Interfund debt exists on the governmental fund statements to represent amounts loaned among funds that are expected to be repaid within the next year.

Interfund transfers exist due to the allocation of general administrative expenses among the funds and the funding of the economic development fund. The transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

(k) Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative notes to the financial statements have not been presented since their inclusion would make the notes to the financial statements unduly complex and difficult to read.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2. PRIOR PERIOD ADJUSTMENTS

The accompanying financial statements reflect adjustments resulting from a restatement of the beginning and ending fund balance of the General Corporate Fund and a restatement of the beginning and ending net assets of the Water Fund, the Governmental Activities, the Business-Type Activities, and the Fiduciary Fund for the year ended April 30, 2010. The previously issued financial statements did not properly report repayments of the interfund balance between the General Corporate and Water Fund. Instead the repayments were shown as interfund transfers. The Government-wide presentation of net assets should defer income from non-exchange property taxes until these revenues are available to fund budgeted expenditures. The effects of these corrections on the fund balance of individual funds and the net assets of governmental activities are summarized below.

	Governmental Funds	Enterprise Funds	Fiduciary Fund	Government-Wide Net Assets	
	General Corporate	Water Fund	Police Pension	Governmental Activities	Business-Type Activities
April 30, 2009 Net Assets/Fund Balance- As Previously Reported	$ 2,714,742	$9,504,046	$ 6,330,083	$ 32,708,154	$ 30,038,110
Increase (Decrease) For Previously Reported Interfund Transfers	60,000	(60,000)		60,000	(60,000)
Decrease For Prior Deferred Property Tax Revenue			(251,378)	(2,902,652)	
April 30, 2009 Net Assets/Fund Balance - Restated	2,774,742	9,444,046	6,078,705	29,865,502	29,978,110
Change in Net Assets/Fund Balance - As Previously Reported	75,093	(92,884)	1,176,442	1,026,621	60,748
Increase (Decrease) For Repayment of Interfund Balance	30,000	(30,000)		30,000	(30,000)
Decrease For Deferred Property Tax Revenue			(104,330)	(88,550)	
Increase For Adjustment To Beginning Capital Assets				20	
Change In Net Assets/Fund Balance - Restated	105,093	(122,884)	1,072,112	968,091	30,748
April 30, 2010 Net Assets/Fund Balance - Restated	$ 2,879,835	$9,321,162	$ 7,150,817	$ 30,833,593	$ 30,008,858

NOTE 3. CASH AND INVESTMENTS

Cash and investments as of April 30, 2011, including fiduciary funds, are classified in the accompanying financial statements as follows:

Total Cash	$ 2,914,381
Total Investments	28,062,750
Total	$ 30,977,131

Cash includes $550 of cash on hand and $2,913,831 of deposits with financial institutions.

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

The City may invest in any type of security allowed by Illinois Law (Public Funds Investment Act of the State of Illinois: 30 ILCS 235/1 et. Seq. as amended). The summary of the allowable instruments are: Passbook Savings Account; NOW, Super NOW and Money Market Accounts; Commercial Paper – issuer must be a U.S. corporation with more than $500,000,000 in assets, rating must be within 3 highest qualifications by 2 standard rating services, must mature within 180 days of purchase, and such purchase cannot exceed 10% of the corporation's outstanding obligations, State treasurer's investment pool, Money Market Mutual Funds – registered under the Investment Company Act of 1940, provided the portfolio is limited to bonds, notes, certificates, treasury bills, or other securities which are guaranteed by the federal government as to principal or interest, Repurchase Agreement – collateralized by full faith in credit U.S. Treasury Securities, Certificates of Deposit and time deposits, constituting direct obligations of any bank as defined by the Illinois Banking Act and only those insured by the FDIC, legally issuable by savings and loan associates incorporated under the laws of the State of Illinois or any other state or under the laws of the United States and only in those savings and loan associations insured by SAIF, bonds, notes, certificates of indebtedness, treasury bills or other securities which are guaranteed by the full faith and credit of the United States of America as to principal and interest, Obligations of United States Government agencies which are guaranteed by the full faith and credit of the United States Government, Short term discount obligations of the Federal National Mortgage Association, insured account of Credit Unions whose principal office is in Illinois, various tax-exempt securities, and Illinois liquid assets.

The City's Police Pension Fund is regulated by the Illinois Department of Insurance, Public Pension Division. The Police Pension Fund may invest assets in Treasury Bills, Treasury Notes and Bonds, Bank Loan Deposits, the state investment pool, zero coupon bonds, guaranteed investment contracts, mutual funds containing stocks, bonds, money market instruments and real estate, mortgage pass-through securities, State of Illinois bonds, Tax Anticipation warrants, and credit union investments.

When permitted by law, the City will pool cash from several different funds that are accounted for in the City's annual financial report to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The primary objectives, in priority order, of investment activity shall be safety, liquidity and yield. Investments shall be made with judgment and care, under circumstances then prevailing, with persons of prudence, discretion and intelligence who exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. City officials and employees shall disclose to the City any material financial interest in financial institutions that conduct business with the City, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the City's portfolio. The City Treasurer, financial officers and others employed in a similar capacity shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

Authority to manage the investment program is granted to the Director of Finance and derived from the following: 65 ILCS 5/3.1-35-50 and the City of Highland Code by Resolution No. 99-12-1304.

Third party safekeeping is required for all collateral and for all securities. Safekeeping will be documented by an approved written agreement. This may be in the form of a safekeeping agreement, trust agreement, escrow agreement or custody agreement.

Any financial institution selected by the City shall provide normal banking services, including, but not limited to: checking accounts, wire transfers, purchase and sale of United States Treasury Securities and safekeeping services.

The City will not maintain funds in any financial institution that is not a member of the FDIC or SAIF system. In addition, the City will not maintain funds in any institution not willing to or capable of posting required collateral for funds in excess of FDIC or SAIF insurable limits.

To qualify as a depository, a financial institution must furnish the Director of Finance with copies of the latest two sworn statements of resources and liabilities (“Call Reports”) which the bank is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency. Each bank designated as a depository for public funds shall, while acting as such depository, furnish the corporate authorities of a public agency with a copy of all statements of resources and liabilities which it is required to furnish to the Commissioner of Banks and Real Estate or to the Comptroller of the Currency.

Fees for banking services shall be mutually agreed to by an authorized representative of the depository bank and the Director of Finance in consultation with the City Manager and shall not be agreed to for any period exceeding three (3) years. Fees for services shall be substantiated by a monthly account analysis and shall be reimbursed by means of compensating balances.

All financial institutions acting as a depository for the City must enter into a "Depository Agreement".

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

All financial institutions and brokers/dealers who desire to become qualified bidders for investment transactions must supply the following upon request by the Director of Finance or an agent of the Director of Finance: audited financial statements, proof of National Association of Securities Dealers (NASD) certification, proof of state registration, completed broker/dealer questionnaire, and certification of having read the City's investment policy.

A. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, an investment with a longer maturity date will have a greater sensitivity of its fair value to changes in market interest rates. One of the ways the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flow from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market rate fluctuations is provided in the following table. As of April 30, 2011 the City had the following investments and maturities:

		Investment Maturities (in Months)		
Investment Type	Fair Value	12 Months or Less	13-36 Months	37-60 Months
Illinois Funds	$ 49,471	$ 49,471		
Illinois Metropolitan Investment Fund	3,353,947	3,353,947		
Mutual Funds	3,582,678	3,582,678		
CDs	21,076,654	3,733,380	$11,097,743	$ 6,245,531
Total	$ 28,062,750	$ 10,719,476	$11,097,743	$ 6,245,531

B. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's state investment pool has earned Standard and Poor's highest rating (AAA). The policemen's pension trust fund can also invest in stocks, bonds, and mutual funds. The stock fund holdings of the policemen's pension trust fund are not rated for credit risk.

C. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. All deposits are carried at cost plus accrued interest.

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

The City's investment in the state investment pool is fully collateralized. The City maintains a separate investment account representing a proportionate share of the pool assets and respective collateral; therefore no collateral is identified with each individual participant's account. The balance in the City's state investment pool as of April 30, 2011 is $49,471.

City deposits at April 30, 2011 consisted of the following:

Depositary Account	Bank Balance
Insured	$ 19,874,624
Collateralized:	
Held by pledging bank's trust department in the City's name	4,265,747
Total Deposits	$ 24,140,371

D. Concentrations of Credit Risk

The City's investment policy limits the amount of funds deposited and/or invested in a financial institution. Deposits/investments shall not exceed 65% of a capital stock and surplus of such institution unless collateral security has been pledged, in which case the amount of such deposits and/or investments shall not exceed 75%.

Investments in any one issuer that represent 5% or more of the total City investments are as follows:

Issuer	Investment Type	Reported Amount
Illinois Metropolitan Investment Fund	Mutual Fund	$ 3,353,947
First Collinsville Bank	Cash	2,868,748
First Collinsville Bank	Certificates of Deposit	2,657,132
Total		$ 8,879,827

NOTE 4. PUBLIC ENTITY RISK POOL

The City of Highland is exposed to risks of loss from normal items typically applicable to all municipalities. These include liability, worker's injury, property damage and others too numerous to mention. To reduce the City's risk of loss from damages and claims, the City is a participant in the Illinois Counties Risk Management Trust.

The trust provides insurance coverage for property liability claims for over 200 Illinois Municipalities.

NOTE 5. PROPERTY TAXES

The City's property tax is levied each year on all taxable real property located in the City on or before the last Tuesday in December. The 2010 levy was passed by the Council on November 15, 2010. Property taxes attach as an enforceable lien on property as of January 1, and are payable in four installments for 2011: July 6, September 6, October 6, and December 6. The County has not mailed tax bills as of April 30, 2011. Past mailing practices of the County have generally been subsequent to April 30 of each year. The City receives significant distributions of tax receipts approximately one month after the bills are mailed by the County. In conjunction with NCGA interpretation #3, revenue is accrued in the year of the levy to the extent that it is due to be paid by the taxpayer by April 30, 2011 and is expected to be collected soon enough after April 30, 2011 to be used to pay liabilities by June 30, 2011 (60 days or less) and has been budgeted for the current year.

The following are the tax rates applicable to the various levies per $100 of assessed valuation:

	MAXIMUM LEVY	2010	2009	2008	2007	2006
General Government	.3330	.3330	.3330	.3330	.3297	.3274
Police Protection	.0750	.0750	.0750	.0750	.0743	.0738
Fire Protection	.0750	.0750	.0750	.0750	.0743	.0738
Playground & Rec	.0900	.0900	.0900	.0900	.0891	.0885
Band	.0400	.0252	.0247	.0239	.0239	.0256
Social Security		.2055	.1933	.1933	.1977	.2076
Retirement		.2007	.1668	.1510	.1796	.1685
Liability Insurance		.1241	.0874	.0874	.0897	.1015
Crossing Guards	.0200	.0057	.0085	.0085	.0092	.0087
Audit		.0108	.0149	.0149	.0152	.0166
Municipal Ambulance	.2500	.2302	.2204	.2304	.2475	.2458
Community Building	.0750	.0750	.0750	.0750	.0743	.0738
Police Pension		.1627	.1883	.1331	.1217	.1415
Library	.1500	.1500	.1500	.1500	.1485	.1475
Library Liability Ins		.0229	.0175	.0174		.0193
Public Comfort Station	.0333	.0124	.0122	.0121	.0128	
TOTAL		1.7982	1.7320	1.6700	1.6875	1.7199

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended April 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Not Being Depreciated:				
Land	$ 3,471,272	$ 4,177,243		$ 7,648,515
Construction In Progress	4,001,503	4,112,273	$ (2,020)	8,111,756
Subtotal	7,472,775	8,289,516	(2,020)	15,760,271
Other Capital Assets:				
Buildings And Improvements	11,062,573			11,062,573
Improvements	2,989,363	491,770	(73,141)	3,407,992
Equipment	4,150,013	259,659	(37,272)	4,372,400
Infrastructure	43,434,339	250,714		43,685,053
Subtotal	61,636,288	1,002,143	(110,413)	62,528,018
Accumulated Depreciation:				
Buildings And Improvements	4,870,572	275,977		5,146,549
Improvements	1,375,203	163,542		1,538,745
Equipment	3,458,401	318,107	(19,417)	3,757,091
Infrastructure	31,962,173	512,310		32,474,483
Subtotal	41,666,349	1,269,936	(19,417)	42,916,868
Net Other Capital Assets	19,969,939	(267,793)	(90,996)	19,611,150
Net Capital Assets	$ 27,442,714	$ 8,021,723	$ (93,016)	$ 35,371,421

Depreciation was charged to functions as follows:

Governmental Activities:	
General Government	$ 114,922
Public Safety	268,648
Highways And Streets	638,447
Culture And Recreation	247,919
Total Government Activities Depreciation Expense	$ 1,269,936

NOTE 6. CAPITAL ASSETS (CONTINUED)

A summary of Business-Type Activities at April 30, 2011 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Not Being Depreciated				
Land	$ 560,462	$ 155,327	$ (70,000)	$ 645,789
Construction In Progress	845,646	3,825,316		4,670,962
Subtotal	1,406,108	3,980,643	(70,000)	5,316,751
Other Capital Assets:				
Buildings	18,532,017	1,290,964		19,822,981
Lines	23,025,058	295,814		23,320,872
Equipment	8,485,046	398,885		8,883,931
Other Improvements	8,686,773	829,752		9,516,525
Interconnect	5,672,510			5,672,510
Subtotal	64,401,404	2,815,415	0	67,216,819
Accumulated Depreciation:				
Buildings	11,794,174	801,788		12,595,962
Lines	13,826,942	767,660		14,594,602
Equipment	6,398,188	429,800		6,827,988
Other Improvements	3,966,929	386,492		4,353,421
Interconnect	1,021,481	186,886		1,208,367
Subtotal	37,007,714	2,572,626	0	39,580,340
Net Other Capital Assets	27,393,690	242,789	0	27,636,479
Net Capital Assets	$ 28,799,798	$ 4,223,432	$ (70,000)	$ 32,953,230

Depreciation was charged to functions as follows:

Business-Type Activities:	
Light And Power	$ 994,342
Water	817,348
Sewer	760,936
	$ 2,572,626

NOTE 7. CHANGES IN LONG-TERM DEBT

The following is a summary of long-term debt transactions of the City for the year ended April 30, 2011:

	GOVERNMENTAL FUNDS	BUSINESS-TYPE FUNDS	TOTAL
Payable April 30, 2010	$ 12,530,000	$ 15,932,524	$ 28,462,524
Additions During Year	3,199,367		3,199,367
Retired During Year	(1,075,000)	(1,272,157)	(2,347,157)
Payable April 30, 2011	$ 14,654,367	$ 14,660,367	$ 29,314,734
Current Portion Payable	$ 1,130,000	$ 1,071,687	$ 2,201,687
Long-Term Portion Payable	13,524,367	13,588,680	27,113,047
Payable April 30, 2011	$ 14,654,367	$ 14,660,367	$ 29,314,734

Bonds payable at April 30, 2011 are comprised of the following individual issues:

Revenue Bonds	
Governmental Activities:	
The City issued bonds for the purchase of the Korte Recreation Center Facility on December 18, 2003 from the Highland Area Community Foundation. The total bond principal amount is $5,395,000, of which $895,000 is attributable to bond issue costs. The bonds are being repaid in semi-annual installments representing interest at variable rates of 2.5% to 4.375% and annual principal installments beginning October 1, 2005. The maturity date of the Series 2003 Bonds is October 1, 2020. Total interest due on remaining balance is $829,798.	$ 3,720,000
2007 Street alternate bonds due in annual installments of $450,000 to $1,160,000 through January 2019, interest at 3.875% to 3.9%. Revenue bonds were issued for future improvements to the City's streets. Total interest due on remaining balance is $1,379,450.	7,735,000
2010 Street alternate bonds due in annual installments of $211,156.20 to 381,786.70 through January 2030, interest compounding at 3.70% to 4.95% with first payment due January 2020. Revenue bonds were issued for future improvements to the City's streets. Total interest due on remaining balance is $2,690,633.	3,199,367
Business-Type Activities:	
2006 Electric system alternate bonds due in annual installments of $510,000 to $960,000 through January 2016, interest at 3.75% to 4.00%. Revenue bonds were issued for future improvements to the City's electric system. Total interest due on remaining balance is $325,050.	2,835,000
2010 Electric system revenue bonds due in various semi-annual installments. These bonds have an increasing interest rate from 1.5% upon issue to 6% in 2029. Revenue bonds were issued to raise funding for the City's Fiber-To-The-Premises Project. The total bond principal amount is $8,985,000, of which $353,376 is attributable to bond issue costs. The maturity date of the Series 2010 Bonds is January 1, 2032. The total interest due on the remaining balance is $6,417,420.	8,985,000
Total Revenue Bonds	$ 26,474,367
Notes Payable	
Business-Type Activities:	
In 1999, the City secured a low interest loan with the Illinois Environmental Protection Agency which funded the construction of the Water Reclamation Facility. The total loan amount was $6,516,341 and is being repaid in semi-annual installments over a 20 year period at 2.89% interest. Total interest due on remaining balance $317,387.	$ 2,840,367

NOTE 7. CHANGES IN LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all debt outstanding as of April 30, 2011, including interest payments of $11,959,738 follows:

YEAR ENDING APRIL 30	REVENUE BONDS PAYABLE	NOTES PAYABLE	TOTAL
2012	$ 2,837,021	$ 451,108	$ 3,288,129
2013	2,864,667	451,108	3,315,775
2014	2,908,242	451,108	3,359,350
2015	2,947,224	451,108	3,398,332
2016	2,956,229	451,108	3,407,337
2017	2,509,630	451,108	2,960,738
2018	2,500,907	451,106	2,952,013
2019	2,043,248		2,043,248
2020	1,798,303		1,798,303
2021	1,789,557		1,789,557
2022	1,323,398		1,323,398
2023	1,315,448		1,315,448
2024	1,306,035		1,306,035
2025	1,300,115		1,300,115
2026	1,287,615		1,287,615
2027	1,278,775		1,278,775
2028	1,268,013		1,268,013
2029	1,256,100		1,256,100
2030	1,246,591		1,246,591
2031	695,900		695,900
2032	683,700		683,700
Total	$ 38,116,718	$ 3,157,754	$ 41,274,472

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

NOTE 8. RETIREMENT FUND COMMITMENTS

(a) Illinois Municipal Retirement Fund

The City of Highland's defined benefit pension plan for Regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The employer plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained online at *www.imrf.org*.

As set by statute, your employer Regular plan members are required to contribute 4.50 percent of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2010 used by the employer was 9.80 percent of annual covered payroll. The employer annual required contribution rate for calendar year 2010 was 11.17 percent. The employer also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

For calendar year ending December 31, 2010, the employer's actual contributions for pension cost for the Regular were $490,451. Its required contribution for calendar year 2010 was $559,015. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at December 31, 2008 included (a) 7.50% investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of the City's Regular plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The City Regular plan's unfunded actuarial accrued liability at December 31, 2008 is being amortized as a level percentage of projected payroll on an open 30 year basis.

TREND INFORMATION

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
12/31/2010	$ 559,015	88%	$ 0
12/31/2009	414,632	100%	0
12/31/2008	455,785	100%	0

NOTE 8. RETIREMENT FUND COMMITMENTS (CONTINUED)

As of December 31, 2010, the most recent actuarial valuation date, the Regular plan was 76.43 percent funded. The actuarial accrued liability for benefits was $14,303,194 and the actuarial value of assets was $10,931,925, resulting in an underfunded actuarial accrued liability (UAAL) of $3,371,269. The covered payroll for calendar year 2010 (annual payroll of active employees covered by the plan) was $5,004,607 and the ratio of the UAAL to the covered payroll was 67 percent. In conjunction with the December 2009 actuarial valuation, the market value of investments was determined using techniques that spread the effect of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. In 2010, the unfunded actuarial accrued liability is being amortized on a level percentage of projected payroll on an open 30 year basis.

In addition to the regular IMRF plan, one employee participated in the Sheriff Law Enforcement Personnel Plan (SLEP). All contact information is the same as the above regular IMRF plan.

As set by statute, your employer Sheriffs Law Enforcement Personnel plan members are required to contribute 7.50 percent of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2010 used by the employer was 19.34 percent of annual covered payroll. The employer annual required contribution rate for calendar year 2010 was 20.70 percent. The employer also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

For December 31, 2010, the employer's annual pension cost of $0 was equal to the City of Highland's required and actual contributions. The required contribution for 2010 was determined as part of the December 31, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2008, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 10% per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3% annually. The actuarial value of your employer Sheriffs Law Enforcement Personnel plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20% corridor between the actuarial and market value of assets. The employer Sheriffs Law Enforcement Personnel plan's unfunded actuarial accrued liability at December 31 , 2008 is being amortized as a level percentage of projected payroll on an open 30 year basis.

NOTE 8. RETIREMENT FUND COMMITMENTS (CONTINUED)

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
12/31/2010	$ 0		$ 0
12/31/2009	1,603	100%	0
12/31/2008	19,406	100%	0

As of December 31, 2010, the most recent actuarial valuation date, the Sheriff's Law Enforcement Personnel Plan was 75.53 percent funded. The actuarial accrued liability for benefits was $65,133 and the actuarial value of assets was $75,337, resulting in an overfunded actuarial accrued liability (UAAL) of $24,407. The covered payroll for calendar year 2010 (annual payroll of active employees covered by the plan) was $0, and the ratio of the UAAL to the covered payroll was 0 percent.

(b) Social Security

All City employees are covered under Social Security. The City paid $525,220 in social security taxes, the total required contribution for the current fiscal year.

(c) Police Pension

(1) Police sworn personnel are covered by the Police Pension Plan which is a defined benefit single employer pension plan. Although this is a single employer pension plan, the defined benefits and employee and employer contributions level are governed by Illinois Compiled Statutes (Chapter 40 ILCS 5/3) and may be amended only by the Illinois Legislature. The City accounts for the plan as a pension trust fund. The current actuarial values presented were provided by the Illinois Department of Financial and Professional Regulation, Division of Insurance, for the year ended April 30, 2010. The City's payroll for employees covered by the Police Pension Plan for the year ended April 30, 2011 was $1,411,136 out of a total payroll of $7,665,248. At April 30, 2011, the Police Pension Plan membership consisted of:

Retirees And Beneficiaries	
Currently Receiving Benefits And Terminated Employees Entitled To Benefits But Not Yet Receiving Them	9
Current Employees	
Vested	10
Non-vested	9
Total	19

NOTE 8. RETIREMENT FUND COMMITMENTS (CONTINUED)

The following is a summary of the Police Pension Plan as provided for in Illinois Compiled Statutes. The Police Pension Plan provides retirement benefits as well as death and disability benefits. A police officer age 50 or more with 20 or more years of creditable service, who is not a participant in the self-managed plan under Section 3-109.1 and who is no longer in service as a police officer, shall receive a pension of one-half of the salary attached to the rank held by the officer on the police force for one year immediately prior to retirement or, beginning July 1, 1987 for persons terminating service on or after that date, the salary attached to the rank held on the last day of service or for one year prior to the last day, whichever is greater. The pension shall be increased by 2.5% of such salary for each additional year of service over 20 years of service through 30 years of service, to a maximum of 75% of such salary. The changes made to this subsection (a) by this amendatory act of the 91st General Assembly apply to all pensions that become payable under this subsection on or after January 1, 1999. All pensions payable under this subsection that began on or after January 1, 1999 and before the effective date of this amendatory Act shall be recalculated, and the amount of the increase accruing for that period shall be payable to the pensioner in a lump sum.

A police officer who retires or is separated from service having at least 8 years but less than 20 years of creditable service, who is not mandatorily retired due to age by operation of law, and who does not apply for a refund of contributions at his or her last separation from police service, shall receive a pension upon attaining age 60 equal to 2.5% of the salary attached to the rank held by the police officer on the police force for one year immediately prior to retirement or, beginning July 1, 1987 for persons terminating service on or after that date, the salary attached to the rank held on the last day of service or for one year prior to the last day, whichever is greater, for each year of creditable service.

The monthly pension of a police officer who retires after January 1, 1986, shall be increased, upon either the first of the month following the first anniversary of the date of retirement if the officer is 55 years of age or over, or upon the first day of the month following attainment of age 55 if it occurs after the first anniversary of retirement, by 1/12 of 3% of the originally granted pension for each full month that has elapsed since the pension began, and by an additional 3% of the originally granted pension in January of each year thereafter.

Covered employees through December 31, 2000, are required to contribute 9% of their base salary to the Police Pension Plan. Effective, January 1, 2001, required contributions are raised to 9.91% of base salary. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. By the year 2033, the City’s contributions must accumulate to the point where the past service cost for the Police Pension Plan is fully funded.

NOTE 8. RETIREMENT FUND COMMITMENTS (CONTINUED)

(2) Summary Of Significant Accounting Policies And Plan Asset Matters

Basis Of Accounting

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used To Value Investments

Fixed-income securities are reported at amortized cost with discounts or premiums amortized using the effective interest rate method, subject to adjustment for market declines judged to be other than temporary (lower of cost or market). Investment income is recognized as earned. Gains and losses on sales and exchanges of fixed-income securities are recognized on the transaction date. Equity securities are reported at fair market value.

(3) Funding Status And Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

NOTE 8. RETIREMENT FUND COMMITMENTS (CONTINUED)

(4) Actuarially Determined Contribution Requirement And Contribution Made

Police Pension

Significant actuarial assumptions used in determining the pension benefit obligation as of April 30, 2010 include:

	Actuarial Assumption
Funding Method Used	Entry Age Normal Cost
Amortization Method	Level Percentage Of Payroll In Accordance With Section 3-127 Of The Illinois Pension Code
Interest Rate Assumption	7.0%
Mortality Rate Assumption	1971 Group Annuity Mortality Table
Decrement Assumption Other Than Mortality	State Of Illinois DOI Experience Tables
Salary Progression Assumption	5.5%
Status Of Social Security In Assumption	None

NOTE 9. OTHER POST EMPLOYMENT BENEFITS

The City allows for retired employees to purchase medical, pharmacy, and dental insurance through the City's single employer, group plans. This constitutes an Other Post Employment Benefit (OPEB) provided to the employees. These benefits are governed by the City Council and can be amended through the City's personnel manual and union contracts. The OPEB plan does not issue a standalone financial report and is not included in the report of another entity. The City has adopted GASB 45 requirements related to OPEB disclosures in the current year.

1) Benefits Provided

Retires and their spouses or surviving spouses are eligible to purchase medical, pharmacy and dental benefits at the City's group rates. Although retirees pay 100% of the cost of the group premiums the City in effect subsidizes a portion of their insurance costs by allowing them on the group plan. Eligible employees must be least 55 years of age with 20 years service or 60 years of age with 8 year of service for all departments other than the police. Police department retirees must be 50 years of age with 20 years of service or 60 years of age with 8 years of service. Retirees and their spouses may only receive these benefits until reaching the age of 65. As of April 30, 2011, 105 active employees and eight retirees participated in the City's insurance plans.

NOTE 9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

2) Annual OPEB Costs And Net OPEB Obligation

The City had an actuarial valuation performed as of April 30, 2010 to determine the funded status of the plan as of that date as well as of that date as well as the employer's annual required contribution (ARC) for the fiscal year ending April 30, 2010. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ending April 30, 2010 are shown below. 2010 was the first year for which a valuation was performed. These figures were updated for April 30, 2011 based on the 2010 valuation and are included below.

Fiscal Year Ending	Annnual OPEB Expense	Annual OPEB Contributions	Net OPEB Obligation
April 30, 2010	$83,126	$0	$83,126
April 30, 2011	$81,829	$33,000	$131,955

The net OPEB obligation as of April 30, 2011 is as follows:

Annual Required Contribution	$	83,126
Interest On Net OPEB Obligation		3,325
Adjustment To Annual Required Contribution		(4,622)
Annual OPEB Expense		81,829
Contributions Made (Implicit)		(33,000)
Estimated Benefit Payments		48,829
Estimated Annual Employer Contribution		0
Change In Net OPEB Obligation		48,829
Net OPEB Obligation As of 4/30/10		83,126
Net OPEB Obligation At 4/30/11	$	131,955

3) Funding Status And Funding Progress

The funding status of the plan as of April 30, 2011 was as follows:

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) ---Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage Of Covered Payroll ((b-a)/c)
4/30/2010	$ 0	$ 773,875	$ 773,875	0.00%	$ 6,384,380	12.12%

NOTE 9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

4) Actuarial Methods And Assumptions.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Other key actuarial assumptions include:

Discount Rate	4%
Trend - Immediate	8%
Trend - Ultimate	6%
Funding Method	Projected Unit Credit
Amortization	30 - Year Open, Level Dollar

GASB 45 stipulates that the discount rate should reflect the long-term rate of return expected to be earned on the assets backing the liability. As the City does not expect to fund the liability through a retiree health care trust, the discount rate reflects the long-term rate of investment return expected to be earned on assets in its general fund.

NOTE 10. EXCESS OF EXPENDITURES OVER BUDGETED OR NON-BUDGETED AMOUNTS IN INDIVIDUAL FUNDS

As of April 30, 2011, the City’s expenses exceeded appropriations in the following funds:

Library Fund	$	206,962
Police Pension Fund		18,029
Cemetery Land Replacement Fund		11,528

The library fund includes improvements made to the building paid for out of general governmental revenues. Police pension exceeded the budget amount due to the elimination and payout of one officer’s contributions. Cemetery land replacement fund expended funds for land for cemetery expansion.

NOTE 11. SUBSEQUENT EVENTS

The effects of subsequent events on the financial statements have been evaluated through the date of the auditor's report, which is the date the financial statements were available to be issued. Subsequent events include the following:

After April 30, 2011 and before the date of the auditor's report, the City terminated its agreement with its solid waste service provider. Due to this occurrence the provider stopped making payments to the City for the purchase of equipment and the receivable relating to this sale was deemed uncollectible by the City. The City retained the equipment, and wrote off the remaining $294,504 of the receivable as of April 30, 2011.

CITY OF HIGHLAND, ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION

Schedule Of Funding Progress - IMRF

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) ---Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage Of Covered Payroll ((b-a)/c)
12/31/2010	$ 10,931,925	$ 14,303,194	$ 3,371,269	76.43%	$ 5,004,607	67.36%
12/31/2009	10,134,841	13,119,763	2,984,922	77.25%	4,653,554	64.14%
12/31/2008	9,787,854	12,070,061	2,282,207	81.09%	4,641,392	49.17%

On a market value basis, the actuarial value of assets as of December 31, 2010 is $11,687,135. On a market vasis, the funded ratio would be 81.71%.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule Of Funding Progress - SLEP

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) ---Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage Of Covered Payroll ((b-a)/c)
12/31/2010	$ 75,337	$ 99,744	$ 24,407	75.53%	$ 0	0.00%
12/31/2009	71,526	65,133	(6,393)	109.82%	8,288	0.00%
12/31/2008	68,644	255,422	156,778	30.45%	102,731	152.61%

On a market value basis, the actuarial value of assets as of December 31, 2010 is $78,445. On a market basis, the funded ratio would be 78.65%.

CITY OF HIGHLAND, ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION
Schedule Of Funding Progress - Police Pension

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (AAL) ---Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage Of Covered Payroll ((b-a)/c)
12/31/2010	$ 7,506,525	$ 9,889,248	$ 2,382,723	75.91%	$ 1,236,250	192.74%
12/31/2009	6,330,084	9,860,035	3,529,951	64.20%	1,248,895	282.65%
12/31/2008	7,095,639	9,116,302	2,020,663	77.83%	1,116,725	180.95%

APPENDIX B

DEFINITIONS OF WORDS AND TERMS AND SUMMARY OF BOND ORDINANCE

The summary of the Bond Ordinance contained in this **Appendix B** does not purport to be comprehensive or definitive and is qualified in its entirety by reference to and subject to the complete Bond Ordinance.

"Accountant" means a certified public accountant or firm of such public accountants.

"Alternate Bonds" means **"**alternate bonds" as described in Section 15 of the Local Government Debt Reform Act (Section 350/15 of Chapter 30 of the Illinois Compiled Statutes), and includes expressly the Series 2006 Bonds.

"Bond Authorization" means Ordinance No. 2515 and the Bond Ordinance and related publications and proceedings of the City.

"Bond Counsel" means Thompson Coburn LLP, Chicago, Illinois, or other attorney or firm of attorneys with a nationally recognized standing in the field of municipal bond financing selected by the City.

"Bond and Interest Account" means the account by that name created or ratified in the Ordinance.

"Bond Insurance Policy" means the financial guaranty insurance policy, if any, issued by the Bond Insurer, if any, guaranteeing the scheduled payment of the principal of and interest on the Series 2012 Bonds when due.

"Bond Insurer" means the bond insurer, if any, identified in the Final Terms Certificate, and any successors or assigns thereof.

"Bond Payment Date" means any date on which principal of or interest on any Bond is payable at the Maturity thereof or on any Interest Payment Date.

"Bond Register" means the books for the registration, transfer and exchange of Bonds kept at the office of the Paying Agent.

"Bondowner," "Owner" or **"Registered Owner"** when used with respect to any Bond means the Person in whose name such Bond is registered on the Bond Register.

"Bonds" or "Series 2012 Bonds" means the Senior Lien Electric System Revenue Bonds, Series 2012, of the City, in the aggregate principal amount of not to exceed $5,000,000, authorized and issued pursuant to the Ordinance and the Final Terms Certificate.

"Business Day" means a day other than a Saturday, Sunday or holiday on which the Paying Agent shall be scheduled in the normal course of its operations to be open to the public for conduct of its banking operations.

"Calculation Date" means the Business Day immediately preceding January 1 of each year.

"Cede & Co." means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Bonds.

"City" means the City of Highland, Madison County, Illinois, and any successors and assigns.

"**Code**" means the Internal Revenue Code of 1986, as amended, or any corresponding applicable provisions of succeeding law, and the applicable temporary, proposed and final regulations relating thereto.

"**Consultant**" means the Consulting Engineer, an independent certified public accountant or a firm of independent certified public accountants.

"**Consulting Engineer**" means each independent engineer or engineering firm with experience in designing and constructing electric utilities or FTTP utilities and retained by the City.

"**Continuing Disclosure Certificate**" shall mean that certain Continuing Disclosure Certificate executed by the City and dated as of the dated date of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"**Corporate Authorities**" means the City Council of the City.

"**Debt Service Reserve Account**" means the account by that name created or ratified in **Section 401** of the Ordinance securing the Series 2012 Bonds.

"**Debt Service Requirements**" means the aggregate principal payments and interest payments on all bonds for the period of time for which calculated; provided, however, that for purposes of calculating such amount, (i) for the period including the final stated Maturity of the bonds, the principal amount of bonds scheduled to mature on the date shall be reduced by the balance on hand in the related Debt Service Reserve Subaccount at the time of such calculation, (ii) interest shall be excluded from the determination of Debt Service Requirements to the extent that such interest is payable from amounts deposited in the Capitalized Interest Subaccount for such purposes, and (iii) principal and interest shall be excluded from the determination of Debt Service Requirements to the extent that such principal or interest is payable from amounts deposited in trust, escrowed or otherwise set aside for the payment thereof with the Paying Agent or other commercial bank or trust company having full trust powers.

"**Debt Service Reserve Requirement**" means with respect to the Series 2012 Bonds, an amount equal to the lesser of (a) maximum annual debt service on the Series 2012 Bonds, (ii) 125% of average annual debt service or (iii) 10% of the proceeds of the Series 2012 Bonds, and with respect to any additional bonds issued pursuant to **Article VIII** the additional amount required pursuant to any Electric System Bond Ordinance which authorize the issuance of such bonds).

"**Defeasance Securities**" means:

(a) Cash (fully insured by the Federal Deposit Insurance Corporation);

(b) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("**U.S. Treasury Obligations**");

(c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;

(d) Federal Securities; or

(e) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

Any Defeasance Security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

"Depreciation and Replacement Account" means the fund or account created or ratified in the Ordinance.

"Depreciation and Replacement Account Requirement" means the sums from time to time as the Corporate Authorities direct to be funded.

"DTC" means The Depository Trust Company of New York, New York.

"Electric System" means the City's revenue producing Electric System now owned, operated by and serving the City, its inhabitants and others within its service area, including connected and related appurtenances and facilities and extensions, improvements, additions and enlargements made or acquired by the City after the date of the Ordinance, and including the Project and the FTTP Component.

"Electric System Revenue Bonds" means collectively the Bonds, the Series 2006 Bonds, the Series 2010 Bonds, and all other Senior Bonds and Junior Bonds issued from time to time by the City and which are payable from and secured by a pledge of the Net Revenues.

"Electric System Bond Ordinances" means the Ordinances under which any Electric System Revenue Bonds are issued and secured.

"Federal Securities" means any direct obligation of, or obligation the timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America and backed by its full faith and credit.

"Final Terms Certificate" means the Final Terms Certificate in substantially the form attached to the Ordinance, and as executed and delivered by the City Manager pursuant to the Ordinance.

"Financial Advisor" means WM Financial Strategies, St. Louis, Missouri.

"Fiscal Year" means the fiscal year of the City, currently the twelve-month period beginning May 1 and ending April 30.

"FTTP Component" shall have the meaning as set forth in the recitals of the Ordinance.

"Interest Payment Date" means the stated maturity of an installment of interest on any Bond.

"Junior Bonds" means any Electric System Revenue Bonds, issued by the City from time to time, payable from the Junior Debt Service Subaccount of the Bond and Interest Account of the Revenue Fund, and includes expressly the City's Outstanding General Obligation Bonds (Electric System Revenue Alternate Revenue Source), Series 2006.

"Junior Debt Service Subaccount" means the Junior Debt Service Subaccount of the Bond and Interest Account of the Revenue Fund created or ratified in the Ordinance.

"Maturity" when used with respect to any Bond means the date on which the principal of such Bond becomes due and payable, whether at stated maturity or by call for redemption or otherwise, and shall be as set forth in the Final Terms Certificate.

"Net Revenues" means Revenues less Operation and Maintenance Expenses.

"Net Revenues Available for Debt Service" means Net Revenues for the period of determination.

"Operation and Maintenance Account" means the fund or account created or ratified by **Section 401**.

"Operation and Maintenance Expenses" means all reasonable and necessary expenses of ownership, operation, maintenance and repair of the Electric System, including the FTTP Component, and keeping the Electric System, including the FTTP Component, in good repair and working order, determined in accordance with generally accepted accounting principles, including current maintenance charges, expenses of reasonable upkeep and repairs, salaries, wages, costs of materials and supplies, Paying Agent fees and expenses, annual audits, periodic Consultant's reports, properly allocated share of charges for insurance, the cost of purchased power and other goods and services, obligations (other than for borrowed money or for rents payable under capital leases) incurred in the ordinary course of business, liabilities incurred by endorsement for collection or deposit of checks or drafts received in the ordinary course of business, short-term obligations incurred and payable within a particular Fiscal Year, obligations incurred for the purpose of leasing (pursuant to a true or operating lease) equipment, fixtures, inventory or other personal property, and all other expenses incident to the ownership and operation of the Electric System, including the FTTP Component, but excluding principal and interest paid on Electric System Revenue Bonds, capital costs, depreciation and amortization charges (including payments into the Depreciation and Replacement Account), and all general administrative expenses of the City not related to the operation of the Electric System, including the FTTP Component.

"Ordinance" or "Bond Ordinance" means the Ordinance as from time to time amended in accordance with its terms.

"Outstanding" means, as of the date of determination, all Bonds issued and delivered by the City, except:

(1) Bonds cancelled by the Paying Agent or delivered to the Paying Agent for cancellation;

(2) Bonds for the payment of the principal or redemption price of and interest on which money or Defeasance Securities are held under the Ordinance;

(3) Bonds in exchange for which, or in lieu of which, other Bonds have been registered and delivered pursuant to the Ordinance; and

(4) Bonds allegedly mutilated, destroyed, lost, or stolen and paid under the Ordinance.

"Participant" means any broker-dealer, bank or other financial institution for which DTC holds Bonds as securities depository.

"Participating Underwriter" shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

"Paying Agent" means The Bank of New York Mellon Trust Company, N.A., and any successors and assigns.

"Permitted Investments" means any of the following securities and obligations, if and to the extent the same are at the time legal for investment of the City's funds:

(a) Defeasance Securities.

(b) Federal Housing Administration debentures.

(c) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

(i) Federal Home Loan Mortgage Corporation (FHLMC) senior debt obligations and Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts);

(ii) Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) consolidated system-wide bonds and notes;

(iii) Federal Home Loan Banks (FHL Banks) consolidated debt obligations; or

(iv) Federal National Mortgage Association (FNMA) senior debt obligations and mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts).

(d) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("**S&P**") and "Prime-1" by and Moody's Investor Services, Inc. ("**Moody's**").

(e) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation, in banks which have capital and surplus of at least $15 million.

(f) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.

(g) Money market funds rated "Aam" or "AAm-G" by S&P, or better and if rated by Moody's rated "Aa2" or better.

(h) "State Obligations," which means:

(i) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A3" by Moody's and at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(ii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (i) above and rated "A-1+" by S&P and "MIG-1" by Moody's.

(iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state or state agency described in (ii) above and rated "AA-" or better by S&P and "Aa3" or better by Moody's.

(i) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:

(i) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(ii) the municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(iii) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations (**"Verification Report"**);

(iv) the cash or U.S. Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(vi) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

(vii) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(j) Repurchase agreements: with (i) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A-" by S&P and "A3" Moody's; or (ii) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A-" by S&P and "A3" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (iii) any other entity rated at least "A-" by S&P and "A3" Moody's (each an **"Eligible Provider"**), provided that:

(i) (a) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (b) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC (**"Eligible Collateral"**);

(ii) the trustee or a third party acting solely as agent therefore or for the issuer (the **"Custodian"**) has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor's books) and such collateral shall be marked to market;

(iii) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the trustee and the issuer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

(iv) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

(v) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, notify the trustee and the issuer within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (a) post Eligible Collateral, or (b) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the trustee repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the issuer or the trustee.

(k) Investment agreements: with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's (each an "**Eligible Provider**"); provided that:

(i) interest payments are to be made to the trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the issuer and the trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(iii) the provider shall send monthly reports to the trustee and the issuer setting forth the balance the issuer or trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;

(iv) the investment agreement shall state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(v) the trustee and the issuer shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;

(vi) the issuer and the trustee shall receive an opinion of foreign counsel to the provider (if applicable) that (1) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (2) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law, and (3) any judgment rendered by a court in the United States would be recognized and enforceable in such country;

(vii) the investment agreement shall provide that if during its term:

(1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3," the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (a) post Eligible Collateral with the issuer, the trustee or a third party acting solely as agent therefore (the **"Custodian"**) free and clear of any third party liens or claims, or (b) assign the agreement to an Eligible Provider, or (c) repay the principal of and accrued but unpaid interest on the investment;

(2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3," the provider must, at the direction of the issuer or the trustee (who shall give such direction if so directed by the Insurer), within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the issuer or trustee.

(l) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("**Eligible Collateral**"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the trustee and the issuer setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

(m) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

(n) the investment agreement must provide that if during its term: (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the issuer or the trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the issuer or trustee, as appropriate, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. (**"event of insolvency"**), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the issuer or trustee, as appropriate.

"Person" means any natural person, corporation, partnership, firms joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof or other public body.

"Pledged Revenues" means Net Revenues, which constitute "enterprise revenues" under the Local Government Debt Reform Act and any other revenues which constitute a "revenue source" under the Local Government Debt Reform Act and are pledged, appropriated by the Corporate Authorities and applied to payment of Alternate Bonds which are Electric System Revenue Bonds.

"Project" means capital improvements including constructing, extending, expanding, improving, repairing, replacing and equipping the FTTP Component of the Electric System as more fully described in the recitals of the Ordinance.

"Project Account" means the account by that name created or ratified in the Ordinance.

"Record Date" for the interest payable on any interest payment date means the 15th day (whether or not a Business Day) of the calendar month next preceding such interest payment date.

"Representation Letter" means any applicable Representation Letter from the City or the Paying Agent to DTC with respect to the Bonds.

"Revenue Fund" means the fund or account created or ratified in the Ordinance.

"Revenues" means all receipts of fees, charges and rates and all other income from whatever source derived from the Electric System, including the FTTP Component, including: (i) investment income; (ii) connection, permit and inspection fees and the like; (iii) penalties and delinquency charges; (iv) payments, if any, to the City from the Illinois Municipal Electric Agency; (v) annexation or pre-annexation charges insofar as designated by the Corporate Authorities as paid for Electric System, including the FTTP Component, connection or service; and (vi) any US Treasury Interest Subsidy received by the City with respect to Electric System Revenue Bonds; but excluding expressly (a) nonrecurring income from the sale of real estate; (b) governmental or other grants, (c) advances or grants made to or from the City; (d) capital development, reimbursement, or recovery charges and the like; (e) annexation or preannexation charges; and (f) as otherwise determined in accordance with generally accepted accounting principles for municipal enterprise funds.

"Senior Bonds" means any Electric System Revenue Bonds, issued by the City from time to time, payable from the Senior Debt Service Subaccount of the Bond and Interest Account of the Revenue Fund including the Series 2010 Bonds and the Bonds.

"**Senior Debt Service Subaccount**" means the Senior Debt Service Subaccount of the Bond and Interest Account of the Revenue Fund created or ratified in the Ordinance.

"Series 2006 Bond Ordinance" means Ordinance No. 2202 adopted by the Corporate Authorities in connection with the authorization of the Series 2006 Bonds.

"Series 2010 Bond Authorization" means Ordinances No. 2398 and 2406 adopted by the Corporate Authorities in connection with the authorization of the Series 2010 Bonds.

"State" means the State of Illinois.

"Surplus Account" means the surplus account created or ratified in the Ordinance.

"Tax Compliance Agreement" means the Tax Compliance Agreement dated as of the date of issuance of the Bonds entered into by the City, as amended and supplemented in accordance with the provisions thereof.

"Underwriter" means the original purchaser of the Bonds as set forth in the Final Terms Certificate.

"**US Treasury Interest Subsidy**" means any credits of other interest subsidy allowed to issuers pursuant to the Code and paid by the United States Treasury to the City with respect to Electric System Revenue Bonds.

SUMMARY OF THE BOND ORDINANCE

Ratification and Creation of Funds and Accounts

The following separate funds and accounts are created in the funds of the City or ratified and confirmed to the extent provided for in the Series 2006 Bond Ordinance and/or the Series 2010 Bond Authorization;

(i) Electric System Revenue Fund (the **"Revenue Fund"**);

(ii) Electric System Operation and Maintenance Account (the "**Operation and Maintenance Account**");

(iii) Electric System Depreciation and Replacement Account (the "**Depreciation and Replacement Account**");

(iv) Electric System Surplus Account (the "**Surplus Account**");

(v) Bond and Interest Account for Electric System Revenue Bonds (the "**Bond and Interest Account**", including the Senior Debt Service Subaccount (the "**Senior Debt Service Subaccount")**, the Junior Debt Service Subaccount (the "**Junior Debt Service Subaccount**"), and the Capitalized Interest Subaccount (the "**Capitalized Interest Subaccount**");

(vi) Debt Service Reserve Account for Electric System Revenue Bonds (the "**Debt Service Reserve Account**") including the Debt Service Reserve Subaccount Series 2012; and

(vii) Project Account for Senior Lien Electric System Revenue Bonds, Series 2012 (the "**Project Account**").

Application of Moneys in the Project Account. Moneys in the Project Account shall be used solely for the purpose of paying the Project Costs incurred by the City and for paying certain expenses incident to the issuance of the Bonds. Upon completion of the capital improvements constituting the Project, any surplus moneys remaining in such subaccount and not required for the payment of unpaid costs thereof shall be deposited in the Senior Debt Service Subaccount.

Revenue Fund. The City covenants and agrees that from and after the delivery of the Bonds, all Revenues derived and collected by the City will be deposited into the Revenue Fund when received. The Revenues will be segregated from all other moneys, revenues, funds and accounts of the City. The Revenue Fund will be administered and applied solely for the purposes and in the manner provided in the Ordinance and any Electric System Bond Ordinance.

Application of Moneys in Funds and Accounts.

(a) The City will apply moneys in the Revenue Fund on the first Business Day of each calendar month, in the amounts and in the order as follows:

(i) To the Operation and Maintenance Account an amount sufficient to pay the estimated cost of operating and maintaining the Electric System during the month;

(ii) To the Senior Debt Service Subaccount the amount required by the Outstanding Senior Bond Ordinances to be deposited therein prior to the first Business Day of the following month:

1) 1/6 of the amount of interest due on the Senior Bonds on the next Interest Payment Date (net of the amount of moneys available for such payment in the Capitalized Interest Subaccount or on deposit in such subaccount from investment earnings, Pledged Revenues or other sources) or, with respect to the first Interest Payment Date, a pro rata portion of the amount of interest due on the Senior Bonds on such Interest Payment Date); and

2) 1/12 of the principal due on the Senior Bonds on the next succeeding principal payment date, whether at maturity or upon mandatory sinking fund redemption (net of the amount of monies available on deposit in such subaccount from investment earnings, Pledged Revenues or other sources) or, with respect to the first principal payment date, a pro rata portion of the principal due on the Senior Bonds on such principal payment date;

(iii) To the Debt Service Reserve Account securing any Senior Bonds the amount required to cause the amount on deposit in the Debt Service Reserve Account securing any Senior Bonds to equal the Debt Service Reserve Requirement for such Senior Bonds;

(iv) To the Junior Debt Service Subaccount the amount required by the Outstanding Junior Bond Ordinances to be deposited therein prior to the 25th day of the following month:

1) 1/6 of the amount of interest due on the Junior Bonds on the next Interest Payment Date (net of the amount of moneys available for such payment in the Capitalized Interest Subaccount or on deposit in such subaccount from investment earnings, Pledged Revenues or other sources) or, with respect to the first Interest Payment Date, a pro rata portion of the amount of interest due on the Junior Bonds on such Interest Payment Date); and

2) 1/12 of the principal due on the Junior Bonds on the next succeeding principal payment date, whether at maturity or upon mandatory sinking fund redemption (net of the amount of monies available on deposit in such subaccount from investment earnings, Pledged Revenues or other sources) or, with respect to the first principal payment date, a pro rata portion of the principal due on the Junior Bonds on such principal payment date;

(v) To the Debt Service Reserve Account securing any Junior Bonds the amount required to cause the amount on deposit in the Debt Service Reserve Account securing any Junior Bonds to equal the Debt Service Reserve Requirement for such Junior Bonds;

(vi) To the Depreciation and Replacement Account, if the balance in the Depreciation and Replacement Account is less than the Depreciation and Replacement Account Requirement, 1/12 of the shortfall in the Depreciation and Replacement Account Requirement;

(vii) the remaining balance to the Surplus Account.

(b) If the amount in the Revenue Fund is not sufficient to make the payments at the time required to be made by the City to the Senior Debt Service Subaccount, the City shall withdraw moneys from the subaccounts in the Debt Service Reserve Account related to a series of Senior Bonds for transfer to the Senior Debt Service Subaccount for payment of the related series of Senior Bonds in the amount necessary to prevent a default in the payment of either principal of or interest on the such related series of Senior Bonds after making the required transfers pursuant to the Ordinance.

(c) Except as provided otherwise in the Ordinance, moneys in the Depreciation and Replacement Account will be used by the City for the purpose of making replacements and repairs to the Electric System in order to keep the Electric System in good repair and working order and to assure the continued effective and efficient operation of the Electric System. The moneys in the Depreciation and Replacement Account shall be used to pay the cost of such replacements and repairs to the System as may be necessary from time to time for the continued effective and efficient operation of the System. Each expenditure to be made from such account to pay the cost of necessary replacement and repairs to the System shall be made only after the Corporate Authorities have certified that such expenditure is necessary to the continued effective and efficient operation of the System.

(d) Moneys in the Surplus Account are to be expended for the following purposes as determined by the City:

(i) paying the cost of the operation, maintenance and repair of the Electric System to the extent necessary after the application of the moneys held in the Operation and Maintenance Account and in the Depreciation and Replacement Account;

(ii) paying the cost of extending, enlarging or improving the Electric System;

(iii) preventing default in, anticipating payments into or increasing the amounts in the accounts created or ratified in the Ordinance, or establishing or increasing the amount of any Bond and Interest Account or Debt Service Reserve Account for the payment of any Electric System Revenue Bonds;

(iv) redeeming and paying prior to maturity, or, at the option of the City, purchasing in the open market at the best price obtainable (not exceeding the call price if any bonds are callable), the Bonds or any other Electric System Revenue Bonds of the City, including principal, redemption premium, if any, and interest, which bonds shall be cancelled;

(v) paying for any general governmental or municipal function properly allocable to operation of the Electric System; or

(vi) applying amounts for any other lawful purpose as the City may direct from time to time.

(e) All amounts paid and credited to the Operation and Maintenance Account will be expended solely for the purpose of paying the Operation and Maintenance Expenses of the Electric System.

(f) No moneys derived by the City from the Electric System will be diverted to the general governmental or municipal functions of the City.

Deficiency of Payments into Funds and Accounts. If the Revenues are insufficient to make any payment on any date specified in this Article, the City will make good the amount of the deficiency by making additional payments out of the first available Revenues or, moneys in the Surplus Account and the Depreciation and Replacement Account for application in the order specified in the Ordinance.

Transfer of Funds to Paying Agent; Application of Moneys in Bond and Interest Account. The Director of Finance is authorized and directed to make the payments to the Bond and Interest Account as provided in the Ordinance, and, to the extent necessary to prevent a default in the payment of the Series 2012 Bonds, first from the Surplus Account and the Depreciation and Replacement Account as provided in the Ordinance, and then from the Debt Service Reserve Subaccount Series 2012, sums sufficient to pay the Bonds when due, and to forward amounts to the Paying Agent in a manner which ensures the Paying Agent will have sufficient available funds on or before the second Business Day immediately preceding the dates when payments on the Bonds are due. All amounts paid and credited to the Debt Service Reserve Subaccount Series 2012 shall be expended and used by the City for the sole purpose of paying the interest on and principal of the Series 2012 Bonds. All amounts paid and credited to the Capitalized Interest Subaccount shall be expended and used by the City for the sole purpose of paying the interest on and principal of the respective series of Bonds to which such account relates and shall be a credit against any required deposit of funds for the payment of interest. All amounts paid and credited to the Senior Debt Service Subaccount shall be expended and used by the City for the sole purpose of paying the interest on and principal of the Senior Bonds, as and when the same become due. All amounts paid and credited to the Junior Debt Service Subaccount shall be expended and used by the City for the sole purpose of paying the interest on and principal of the Junior Bonds, as and when the same become due.

Debt Service Reserve Account. Moneys in the Debt Service Reserve Account will be disbursed and expended by the City solely for the payment of the principal of, redemption premium, if any, and interest on the Electric System Revenue Bonds if sufficient moneys are not available in the Bond and Interest Account as specified in the Ordinance. The Debt Service Reserve Subaccount Series 2012 is required to be funded on the date of issuance and delivery of the Series 2012 Bonds in an amount equal to the Debt Service Reserve Requirement. The Debt Service Reserve Requirement shall be deemed to be met so long as there is on deposit in the Debt Service Reserve Account cash or Permitted Investments meeting the requirements of this Section. In the event of a withdrawal from the Debt Service Reserve Account or a valuation shortfall, the City will not be in default hereunder for failure to maintain such account at the Debt Service Reserve Requirement, so long as the City makes monthly deposits to the Debt Service Reserve Account beginning 60 days following such withdrawal in an amount equal to $1/12^{th}$ of the amount necessary to fully fund such account at the Debt Service Reserve Requirement.

Investment of Moneys.

(a) Moneys in each of the other funds and accounts created or ratified by the Ordinance may be invested by the City in Permitted Investments, but no investment will be made for a period extending longer than the date when the moneys invested may be needed. All earnings on any investments held in any fund or account will accrue to the applicable fund or account. In determining the amount held in any fund or account under the Ordinance other than the Debt Service Reserve Account, obligations will be valued at the lower of cost or market valued on each principal payment date. In determining the amount held in the Debt Service Reserve Account under the Ordinance, obligations will be valued at the cost thereof at least annually. If the amount in any fund or account held within the Treasury of the City is greater than the required amount, the City may transfer the excess to the Revenue Fund; provided, however, the City shall transfer at least annually to the Project Account the earnings accrued to the Debt Service Reserve Subaccount Series 2012 through the completion of the portion of the Project financed with the Series 2012 Bonds.

(b) So long as any Series 2006 Bonds are outstanding, any investments made pursuant to this Section are subject to more restrictive provisions in the Series 2006 Bond Ordinance

Efficient and Economical Operation. The City will continuously own and will operate the Electric System in an efficient and economical manner and will keep and maintain the Electric System in good repair and working order.

Rate Covenants. The City will fix, establish, maintain and collect rates and charges for the use and services furnished, by or through the Electric System to produce income and revenues sufficient to (a) pay the costs of the operation and maintenance of the Electric System; (b) pay (together with Pledged Revenues) the principal of and interest on the Electric System Revenue Bonds as and when due; (c) provide reasonable and adequate reserves for the payment of the Electric System Revenue Bonds and the interest thereon and for the protection and benefit of the Electric System as provided in the Ordinance; (d) pay all amounts required to meet any fund or account requirements with respect to Electric System Revenue Bonds; (e) pay any other contractual or tort liability obligations, if any, payable from such Net Revenues, and (f) enable the City to have in each Fiscal Year Net Revenues Available for Debt Service in an amount not less than, with respect to Senior Bonds that are not Alternate Bonds, 120% of the Debt Service Requirements on all Outstanding Senior Bonds (the "**Coverage Requirement**"), provided that, in no event shall the Coverage Requirement reduce the requirements pursuant to any Electric System Bond Ordinance, including any such ordinance authorizing and securing Alternate Bonds, and further provided that the Coverage Requirement calculated by excluding from Net Revenues any US Treasury Interest Subsidy shall not be less than 110% of the Debt Service Requirements on such Outstanding Senior Bonds and not less 100% of the Debt Service Requirements on all Outstanding Electric System Revenue Bonds. The City will require the prompt payment of accounts for service rendered by or through the Electric

System and will promptly take whatever action is legally permissible to enforce and collect delinquent charges.

Reasonable Charges for all Services. None of the facilities or services provided by the Electric System will be furnished to any user (including the City) without a reasonable charge being made therefor.

Annual Budget. Prior to the commencement of each Fiscal Year, the City will cause a budget setting forth the estimated receipts and expenditures of the Electric System for the next succeeding Fiscal Year to be prepared and filed with the City Clerk. The annual budget will be prepared in accordance with the laws of the State.

Annual Audit.

(a) Promptly after the end of each Fiscal Year, the City will cause an audit of the Electric System for the preceding Fiscal Year to be made by a certified public accountant or firm of certified public accountants employed for that purpose and paid from the Revenues. The annual audit will cover in reasonable detail the operation of the Electric System and each component thereof during the Fiscal Year.

(b) Within 180 days after the end of the City's Fiscal Year, a copy of the annual audit will be filed in the office of the City Clerk. The annual audit will be open to examination and inspection during normal business hours by any taxpayer, any user of the services of the Electric System, any Owner of the Bonds, or anyone acting for or on behalf of the taxpayer, user or Owner.

(c) As soon as possible after the completion of the annual audit, the Governing Body will review the annual, audit, and if the annual audit reveals any breach of the Ordinance, the City agrees to promptly cure the breach.

Performance of Duties. The City will faithfully and punctually perform all duties and obligations with respect to the operation of the Electric System now or hereafter imposed upon the City by the Constitution and laws of the State, and the provisions of the Ordinance.

Covenants re FTTP Component. Until all of the principal represented by, and the interest due on, the Series 2010 Bonds and the Bonds has been paid, the City shall establish rates for services of the FTTP Component sufficient to produce revenues at all times sufficient to pay the cost of the operation and maintenance of the FTTP Component (including depreciation) and to pay the interest on, and principal of, the Series 2010 Bonds and the Bonds, as the same become due, and the rates for use of the FTTP Component shall, from time to time, be so established by the City that the charges made to, and collected from, consumers (including the municipal government of the City) shall be sufficient to meet the revenue requirements of this section; provided, however, that nothing in this section shall be construed to require the City to avail itself of the facilities furnished by the FTTP Component. The City has determined as provided in the Ordinance that the electric generation and distribution component of the Electric System (the "**Electric Component**") is in need of the services to be provided by the FTTP Component (the "**FTTP Services**"). The City hereby establishes the rate for use of the FTTP Services by the Electric Component to be the amount needed from time to time to pay the cost of the operation and maintenance of the FTTP Component (including depreciation) and the interest on and principal of the Series 2010 Bonds and the Bonds when due. The City hereby covenants and agrees that in consideration for the use of such FTTP Services by the Electric Component, the Net Revenues of the Electric Component will be available and will be used to pay as the rate for use of the FTTP Services by the Electric Component the cost of the operation and maintenance of the FTTP Component (including depreciation) and to pay the interest on, and principal of, the Series 2010 Bonds and the Bonds.

Prior Lien Bonds. The City will not issue any debt obligations payable out of the Net Revenues which are superior in lien, security or otherwise to the Senior Bonds.

Additional Senior Bonds or Obligations.

(a) The City will not issue any additional bonds or other long-term obligations payable out of the Net Revenues of the Electric System which stand on a parity or equality with the Senior Bonds unless the following conditions are met:

(i) the City is not in default in the payment of principal or interest on any Electric System Revenue Bonds or in making any deposit into the funds and accounts under the Ordinance or any Electric System Bond Ordinance; and

(ii) the City provides a certificate showing the following:

(1) Net Revenues Available for Debt Service as set forth in the most recent annual audit for the Fiscal Year preceding the issuance of additional Senior Bonds, are at least equal to the sum of (i) 120% of the maximum annual debt service on all Outstanding Senior Bonds, including the additional Senior Bonds proposed to be issued, to be paid out of the Net Revenues in all succeeding Fiscal Years, (ii) the amount required to replenish any Debt Service Reserve Account securing Senior Bonds as required by the related Electric System Bond Ordinance, (iii) satisfaction of any additional Coverage Requirement pursuant to any Electric System Bond Ordinance, including any such ordinance authorizing and securing Alternate Bonds which provide for Net Revenues as "enterprise revenues" under the Local Government Debt Reform Act; and Net Revenues Available for Debt Service as set forth in the most recent annual audit for the Fiscal Year preceding the issuance of additional Senior Bonds less any U.S. Treasury Interest shall not be less than 110% of the maximum annual debt service on all Outstanding Senior Bonds, including the additional Senior Bonds proposed to be issued, to be paid out of the Net Revenues in all succeeding Fiscal Years and not less 100% of the maximum annual debt service on all Outstanding Electric System Revenue Bonds in all succeeding Fiscal Years. If the City has approved and implemented any increase in rates for the use and services of the Electric System and the increase has not been in effect during all of the Fiscal Year for which the annual audit is available, the City may add the additional Net Revenues which would have resulted if the rate increase had been in effect for the entire period to the audited Net Revenues, as certified by the Consultant; and provided that, in no event shall the Coverage Requirement reduce the requirements pursuant to any Electric System Bond Ordinance, including any such ordinance authorizing and securing Alternate Bonds; and

(2) the City is not in default pursuant to the provisions of and complies with the provisions of any Electric System Bond Ordinances.

(b) If the conditions set forth above are satisfied, the City (i) may issue additional Senior Bonds or other obligations of the City on a parity with the Senior Bonds and that enjoy complete equality of the lien on the Net Revenues with the Senior Bonds, (ii) may make equal provision for paying the additional revenue bonds or other obligations from the Revenue Fund, and (iii) may secure the additional revenue bonds or other obligations by funding reasonable bond and interest accounts and debt service reserve accounts from the Net Revenues.

Junior Bonds or Subordinate Obligations. Nothing in this Article prohibits or restricts the right of the City to issue additional revenue obligations, including Junior Bonds, for the purpose of extending, improving, enlarging, repairing or altering the Electric System, that are subordinate to the Senior Bonds if at the time of the issuance of the additional revenue obligations the City is not in default in the performance of any covenant or agreement in any Electric System Bond Ordinance. If the City is in default in paying either interest on or principal of the Senior Bonds, or if the Debt Service Reserve Account is not fully funded, the City shall not make any payments on the Junior Bonds or other subordinate revenue obligations until the default is cured. Subject to the limitations in this Section, the City may make provision for paying the principal of and interest on the Junior Bonds or other subordinate obligations from moneys in the Revenue Fund.

Senior Refunding Bonds. The City may, without complying with the provisions relating to the issuance of Additional Senior Bonds or Obligations, refund any of the Senior Bonds in a manner which provides debt service savings to the City, and the Senior Bonds so issued will be on a parity with any of the Senior Bonds that are not refunded.

Events of Default. The City covenants and agrees that if it shall default in the payment of the principal of or interest on any of the Bonds as the same shall become due, or default with respect to any covenant set forth in the Ordinance and such default shall continue for a period of 30 days, or if the City or its governing body or any of the officers, agents or employees thereof shall fail or refuse to comply with any of the provisions of the Constitution or statutes of the State, or of the Ordinance, at any time thereafter and while such default shall continue, the Owners of 25% in principal amount of the Bonds then Outstanding may, by written notice to the City filed in the office of the City or delivered in person to the Mayor or City Clerk of the City, declare the principal of all Bonds then Outstanding to be due and payable immediately, and upon any such declaration given as aforesaid, all of said Bonds shall become and be immediately due and payable, anything in the Ordinance or in the Bonds contained to the contrary notwithstanding. This provision, however, is subject to the condition that if at any time after the principal of said Outstanding Bonds shall have been so declared to be due and payable, all arrears of interest upon all of said Bonds, except interest accrued but not yet due on such Bonds, and all arrears of principal upon all of said Bonds shall have been paid in full, and all other defaults, if any, by the City under the provisions of the Ordinance and under the provisions of the statutes of the State shall have been cured, then and in every such case the Owners of 50% in principal amount of the Bonds then Outstanding, by written notice to the City given as hereinbefore specified, may rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any rights consequent thereon.

Remedies.

(a) The provisions of the Ordinance constitute a contract between the City and the Owners of the Bonds. The Owner or Owners of not less than 10% in principal amount of the Bonds at the time Outstanding have the right for the equal benefit and protection of all Owners of Bonds similarly situated:

(i) by any proceeding at law or in equity to enforce the rights of the Owner or Owners against the City and its officers, agents and employees, and to compel the performance by the City of its duties and obligations under the Ordinance, the Constitution and the laws of the State;

(ii) by any proceeding at law or in equity to require the City, its officers, agents and employees to account as if they were the trustees of an express trust; and

(iii) by any proceeding at law or in equity to enjoin any act or thing which is unlawful or in violation of the rights of the Owners of the Bonds.

(b) Any amounts paid on the Bonds to the Owners will be applied first to interest and second to principal, to the extent due and payable.

Limitation on Rights of Bondowners. No Owner has any right in any manner whatever by the Owner's action to affect, disturb or prejudice the security granted and provided for in, or enforce any right under, the Ordinance, except in the manner provided in the Ordinance. All proceedings at law or in equity will be for the equal benefit of all Owners.

Remedies Cumulative. No remedy conferred upon the Owners is intended to be exclusive of any other remedy. Each remedy is in addition to every other remedy and may be exercised without exhausting any other remedy conferred under the Ordinance. No waiver by any Owner of any default or breach of duty or contract of the City under the Ordinance will affect any subsequent default or breach of duty or contract by the City or impair any rights or remedies thereon. No delay or omission of any Owner to exercise any right or power accruing upon any default will impair any right or power or will be construed to be a waiver of any default. Every substantive right and every remedy conferred upon the Owners of the Bonds by the Ordinance may be enforced and exercised from time to time and as often as may be expedient. If any Owner discontinues any proceeding or the decision in the proceeding is against the Owner, the City and the Owners of the Bonds will be restored to their former positions and rights under the Ordinance.

No Obligation to Levy Taxes. Nothing in the Ordinance imposes any duty or obligation on the City to levy any taxes either to meet any obligation incurred under the Ordinance or to pay the principal of or interest on the Bonds.

Defeasance. When all of the Bonds shall have been paid and discharged then the requirements contained in the Ordinance, except as otherwise provided in the Tax Compliance Agreement, and the pledge of Net Revenues made hereunder and all other rights granted hereby shall terminate. Bonds shall be deemed to have been paid and discharged within the meaning of the Ordinance if there shall have been deposited with the Paying Agent and Bond Registrar, or other bank located in the State of Illinois and having full trust powers, at or prior to the maturity or redemption date of said Bonds, in trust for and irrevocably appropriated thereto, moneys and/or direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America, or securities which represent an undivided interest in such obligations or securities to the extent that the Treasury of the United States of America is ultimately responsible for payment thereof, which, together with the interest to be earned on any such obligations, will be sufficient for the payment of the principal of said Bonds, the redemption premium thereon, if any, and interest accrued to the date of maturity or redemption, as the case may be, or if default in such payment shall have occurred on such date, then to the date of the tender of such payments, provided always that if any such Bonds shall be redeemed prior to the maturity thereof, the City shall have elected to redeem such Bonds and notice of such redemption shall have been given. Any moneys and obligations which at any time shall be deposited with the Paying Agent and Bond Registrar or other bank by or on behalf of the City, for the purpose of paying and discharging any of the Bonds, shall be and are hereby assigned, transferred and set over to the Paying Agent and Bond Registrar or other bank in trust for the respective Owners of the Bonds, and such moneys shall be and are hereby irrevocably appropriated to the payment and discharge thereof. All moneys deposited with the Paying Agent and Bond Registrar or other bank shall be deemed to be deposited in accordance with and subject to all of the provisions contained in the Ordinance.

Amendments Not Requiring Consent of Bond Owners. The City may from time to time, without the consent of or notice to any of the Bond Owners, amend the Ordinance as shall not be inconsistent with the terms and provisions of the Ordinance, for any one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in the Ordinance or to make any other change not prejudicial to the Owners;

(b) to grant to or confer upon the Paying Agent and Bond Registrar or the Bond Owners any additional rights, remedies, powers or authority that may be lawfully granted to or conferred upon the Bond Owners or the Paying Agent and Bond Registrar or either of them;

(c) to more precisely identify the Electric System or to substitute or add property thereto or release property therefrom;

(d) to subject to the Ordinance additional revenues, properties or collateral;

(e) to issue additional Electric System revenue bonds as provided in the Ordinance; or

(f) to secure a rating from S&P or Moody's, provided such changes will not restrict, limit or reduce the obligation of the Issuer to pay the principal of, premium, if any, or interest on the Bonds as provided herein or otherwise materially adversely affect the Owners of the Bonds under the Ordinance.

Amendments Requiring Consent of Bond Owners. The rights and duties of the City and the Bond Owners, and the terms and provisions of the Bonds or of the Ordinance, may be amended or modified at any time in any respect by Ordinance of the City with the written consent of the Owners of not less than two-thirds in principal amount of the Bonds then Outstanding, such consent to be evidenced by an instrument or instruments executed by such Owners and duly acknowledged or proved in the manner of a deed to be recorded, and such instrument or instruments shall be filed with the City Clerk of the City, but no such modification or alteration shall:

(a) extend the maturity of any payment of principal or interest due upon any Bond;

(b) effect a reduction in the amount which the City is required to pay by way of principal of or interest on any Bond;

(c) permit the creation of a lien on the Net Revenues of the Electric System prior or equal to the lien of the Bonds or additional bonds hereafter issued on a parity with the Bonds as hereinbefore provided;

(d) permit preference or priority of any Bonds over any other Bonds; or

(e) reduce the percentage in principal amount of Bonds required for the written consent to any modification or alteration of the provisions of the Ordinance.

Any provision of the Bonds or of the Ordinance may, however, be amended or modified by Ordinance duly adopted by the governing body of the City at any time in any respect with the written consent of the Owners of all of the Bonds at the time Outstanding.

Any and all modifications made in the manner hereinabove provided shall not become effective until there has been filed with the City Clerk of the City a copy of the Ordinance of the City hereinabove provided for, duly certified, as well as proof of consent to such modification by the Owners of not less than two-thirds in principal amount of the Bonds then Outstanding. It shall not be necessary to note on any of the Outstanding Bonds any reference to such amendment or

APPENDIX C

BOOK-ENTRY ONLY SYSTEM

General. The Series 2012 Bonds are available in book-entry only form. Purchasers of the Series 2012 Bonds will not receive certificates representing their interests in the Series 2012 Bonds. Ownership interests in the Series 2012 Bonds will be available to purchasers only through a book-entry system (the "Book-Entry System") maintained by The Depository Trust Company ("DTC"), New York, New York.

The following information concerning DTC and DTC's book-entry system has been obtained from DTC. The City (defined in this section as the "Issuer") takes no responsibility for the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

1. DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2012 Bond certificate will be issued for each maturity of the Series 2012 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

3. Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 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 Series 2012 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 Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2012 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 Series 2012 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 Series 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 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.

5. 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.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2012 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Series 2012 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 Issuer or the Paying Agent, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Issuer, 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 Issuer or the Paying Agent, 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.

9. DTC may discontinue providing its services as depository with respect to the Series 2012 Bonds at any time by giving reasonable notice to the Issuer or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2012 Bond certificates are required to be printed and delivered.

10. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2012 Bond certificates will be printed and delivered to DTC.

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

APPENDIX D
FORM OF OPINION OF BOND COUNSEL

April __, 2012

City of Highland, Illinois
Highland, Illinois

Re: $4,225,000 Senior Lien Electric System Revenue Bonds, Series 2012, Series 2012 (the "**Series 2012 Bonds**")

Ladies and Gentlemen:

The City of Highland, Illinois (the "**City**"), has on this date issued its Senior Lien Electric System Revenue Bonds, Series 2012 (the "**Series 2012 Bonds**") in the aggregate principal amount of $4,225,000. The Series 2012 Bonds have been authorized and issued under and pursuant to the Constitution and laws of the State of Illinois. The Series 2012 Bonds are further issued pursuant to an ordinance adopted by the City Council of the City on March 19, 2012 (the "**Bond Ordinance**"), to provide funds to acquire, construct and equip extensions, improvements, additions and enlargement of the City's Electric system (the "**System**"). The Series 2012 Bonds consist of fully registered Series 2012 Bonds without coupons numbered from R 1 consecutively upward, in the denomination of $5,000 or any multiple integral thereof, dated as of their date of initial issuance and delivery, and becoming due on the dates, in the years, and bearing interest as set forth in the Bond Ordinance.

Capitalized terms not otherwise defined herein shall have the meanings as set forth in the Bond Ordinance.

The principal of the Series 2012 Bonds shall be payable at the principal corporate trust office of The Bank of New York Mellon Trust Company, N.A. (the "**Paying Agent**" and "**Bond Registrar**"). The interest on the Series 2012 Bonds shall be payable by check or draft mailed by the Paying Agent to the persons in whose names the Series 2012 Bonds are registered at their addresses as they appear on the Bond registration books maintained by the Bond Registrar on the fifteenth day of the calendar month preceding each Interest Payment Date.

In connection with the issuance of the Series 2012 Bonds, we have examined the following (the "**Bond Documents**"):

A. The Constitution and statutes of the State of Illinois and such other laws as we deem relevant to this opinion.

B. A certified copy of the proceedings of the City Council of the City, preliminary to and in connection with the issuance of the Series 2012 Bonds, including the Bond Ordinance, authorizing, among other things, the following:

(i) the issuance, sale and delivery of the Series 2012 Bonds;

(ii) the execution and delivery of the Tax Compliance Agreement (the "**Tax Compliance Agreement**"), dated as of the date hereof, of the City.

C. An original certified copy of the Bond Ordinance and an executed counterpart of the Tax Compliance Agreement.

D. A specimen of the Series 2012 Bonds.

E. Representations and certifications of the City, Edward D. Jones & Co., L.P., as the original purchaser of the Series 2012 Bonds and WM Financial Strategies, as the financial advisors.

F. The opinion of even date herewith of Belsheim & Bruckert, LLC, City Attorney of the City.

G. Such other matters, laws and documents as we deem necessary for purposes of this opinion.

In rendering the opinions set forth herein we have assumed, without undertaking to verify the same by independent investigation, (a) as to questions of fact, the accuracy and completeness of all representations of the City set forth in the Bond Ordinance, and the Tax Compliance Agreement and all representations and certifications of officers, officials and representatives of the City and others examined by us, (b) the conformity to original documents of all documents submitted to us as copies and the authenticity of such original documents and all documents submitted to us as originals, (c) that the proceeds of the Series 2012 Bonds will be used in accordance with the Bond Ordinance and the Tax Compliance Agreement and (d) that all covenants and requirements of the Bond Ordinance, and the Tax Compliance Agreement will be duly complied with and fulfilled.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement dated April 4, 2012, with respect to the Series 2012 Bonds (the "**Official Statement**") or other offering material relating to the Series 2012 Bonds (except to the extent stated herein), and we express no opinion relating thereto (except to the extent stated herein).

Based upon the foregoing and subject to the exceptions and clarifications set forth herein, we are of the opinion, as of the date hereof and under existing law, that:

1. The Series 2012 Bonds are in proper form, have been authorized and issued in accordance with the Constitution and statutes of the State of Illinois, and constitute a valid and legally binding special obligation of the City payable solely from, and secured as to the payment of principal and interest by a pledge of the Net Revenues derived by the City from the operation of the System of the City. The obligation of the City to make payments into the Debt Service Account, the Debt Service Reserve Account and any other obligations of the City to make payments under the Ordinance do not constitute a general obligation or indebtedness of the City for which the City is obligated to levy or pledge any form of taxation, or for which the City has levied or pledged any form of taxation and shall not be construed to be a debt of the City in contravention of any applicable constitutional, statutory or charter limitation or requirement. The City does not pledge its full faith and credit and is not obligated to levy taxes or resort to any other moneys of the City to pay the principal and interest on the Series 2012 Bonds.

2. The Bond Ordinance and the Tax Compliance Agreement have been duly authorized, executed and delivered by the parties thereto and each such instrument is a legal and binding instrument upon the parties thereto according to its terms and is in full force and effect, assuming due authorization, execution and delivery by the other party thereto, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally or by general principles of equity, whether enforcement is considered in a proceeding at law or in equity. In rendering the opinion under this paragraph, we have relied on the representations and certifications of the City referred to above and the opinion of counsel for the City referred to above.

Interest on the Series 2012 Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied in order that the interest on the Series 2012 Bonds be, and continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with such requirements of the Code may cause interest on the Series 2012 Bonds (including any original issue discount properly allocable to an owner thereof) to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2012 Bonds.

3. The Series 2012 Bonds are not "specified private activity bonds" within the meaning of the alternative minimum tax provisions of the Code and, accordingly, interest on the Series 2012 Bonds (including any original issue discount properly allocable to an owner thereof) is not a specific item of tax preference for purposes of the federal alternative minimum tax on corporations and other taxpayers, including individuals.

4. The Series 2012 Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code (relating to financial institution deductibility of interest expense).

5. Interest on the Series 2012 Bonds (including original issue discount properly allocable to the owners thereof) is **not** exempt from present State of Illinois income taxes.

We express no opinion regarding federal, state or local tax consequences arising with respect to the Series 2012 Bonds, other than as expressly set forth herein.

This letter is furnished by us solely for your benefit and may not be relied upon by any other person or entity or in connection with any other transaction without our prior consent. The opinions set forth in this letter are given as of the date hereof, and we disclaim any obligation to advise the addressees or to revise or supplement this letter to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. Other than as expressly set forth herein, we express no opinion herein relative to compliance with federal or state securities laws.

Very truly yours,