NEW ISSUE/Book-Entry Only

RATINGS: Fitch Ratings "AAA"
Moody's "Aaa"
Standard & Poor's "AAA"
(FSA Insured: See "Bond Insurance" and "Ratings")

In the opinion of Bond Counsel interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and the Certificates are not private activity bonds. See "Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

$1,500,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Combination Tax and Revenue Certificates of Obligation, Series 2003

Dated: July 15, 2003 **Due: August 15, as shown below**

The $1,500,000 City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2003 (the "Certificates") will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases will be made in book-entry form only, in principal amounts of $5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Certificates purchased. Interest on the Certificates will be payable on February 15 and August 15 of each year, commencing February 15, 2004.

The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates by FINANCIAL SECURITY ASSURANCE INC.

FSA®

$825,000 Serial Certificates

Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[(1)]	Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[(1)]
2004	$75,000	5.50%	1.10%	041790 M94	2010	75,000	4.00%	3.48%	041790 N77
2005	75,000	5.50	1.45	041790 N28	2011	75,000	4.00	3.73	041790 N85
2006	75,000	5.50	1.94	041790 N36	2012	75,000	4.00	3.90	041790 N93
2007	75,000	5.50	2.40	041790 N44	2013	75,000	4.00	4.03	041790 P26
2008	75,000	5.50	2.76	041790 N51	2014	75,000	4.00	4.15	041790 P34
2009	75,000	4.00	3.13	041790 N69					

$375,000 4.50% Term Certificates due 2019 Price to Yield 4.68% - Cusip #041790 P83
$300,000 4.75% Term Certificates due 2023 Price to Yield 4.96% - Cusip #041790 Q41

This cover page contains information for quick reference only. It is *not* a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services.

The date of this Official Statement is July 29, 2003.

CITY OF ARLINGTON

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Robert Cluck, M.D. Mayor	4 years [1]	May, 2005	Doctor
Wayne Ogle Mayor Pro Tem	8 years	May, 2005	Minister
Joe Bruner Council member	3 years	May, 2004	Certified Public Accountant
Bill McFadin Council member	[2]	May, 2004	Retired
Kathryn Wilemon Council member	[2]	May, 2005	Community Volunteer
Lana Wolff Council member	[2]	May, 2005	Community Volunteer
Steve McCollum Council member	3 years	May, 2004	Small Business Owner
Ron Wright Council member	3 years	May, 2004	Congressman's District Director
Gene Patrick Council member	[2]	May, 2005	Small Business Owner

(1) Served as Councilmember from May 1999 to May 2003.
(2) Elected May 2003.

APPOINTED OFFICIALS

Name	Position	Years of employment with City
Charles R. Kiefer	City Manager	25
David M. Kunkle	Deputy City Manager - Citizen Services	18
Gayle Lacerda	Deputy City Manager - Community Resources	14[1]
Charles Anderson	Acting Deputy City Manager - Administration	31
Donna Swarb	Chief Financial Officer	4
Jay Doegey	City Attorney	17
Barbara Heptig	City Secretary	6

[1] Non-consecutive service.

ATTORNEY AND INDEPENDENT PUBLIC ACCOUNTANTS

Independent Public Accountants	KPMG, LLP Dallas, Texas
Bond Counsel	Vinson & Elkins L.L.P. Dallas, Texas

USE OF INFORMATION IN OFFICIAL STATEMENT

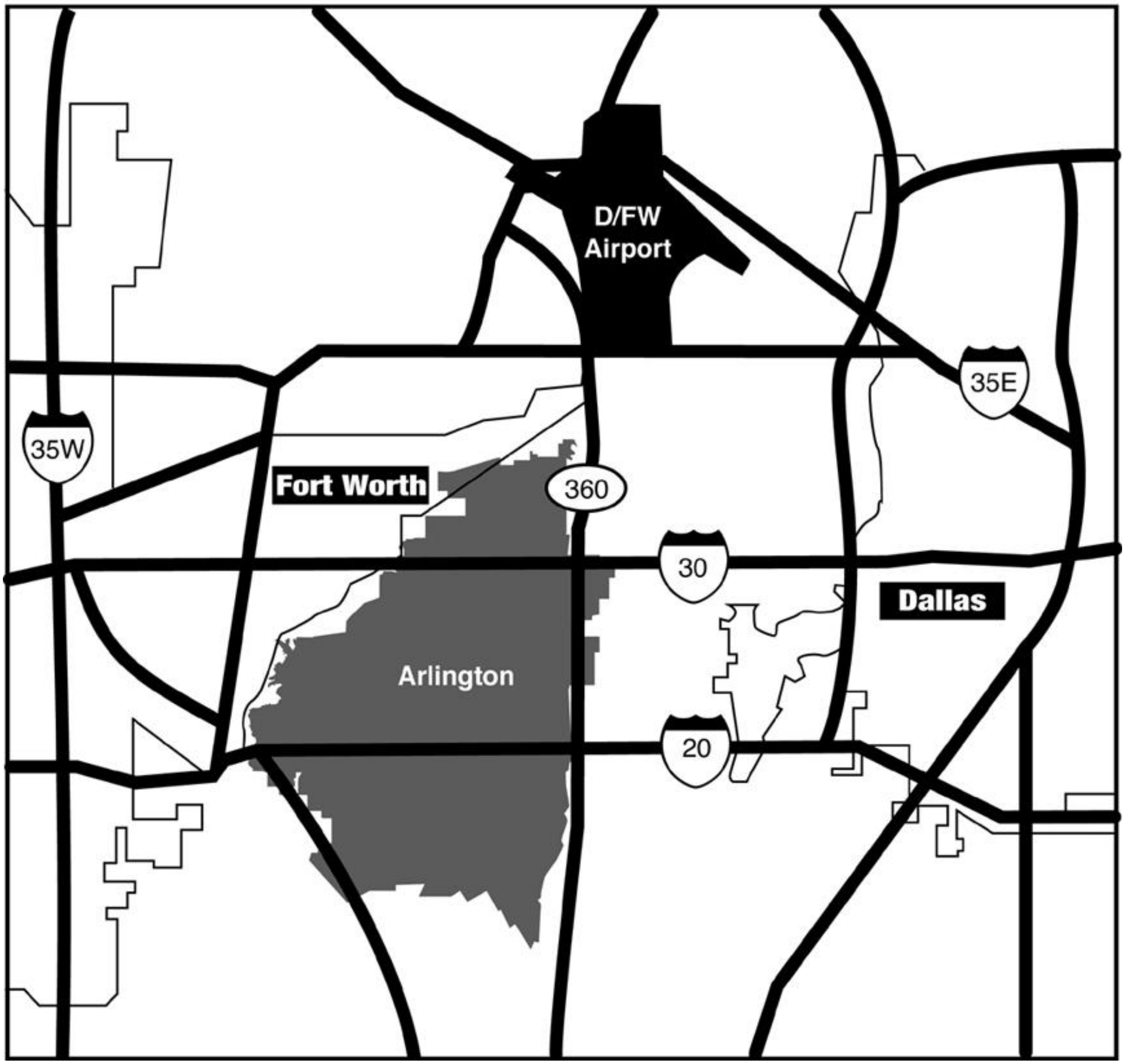
No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell and is not to be used in an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained 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 or other matters described herein since the date hereof.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit D specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

TABLE OF CONTENTS

Dallas/Fort Worth/Arlington Metropolitan Area



SECTION ONE: INTRODUCTION

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is hereby made for all purposes.

The Issuer

The City of Arlington, Texas (the "City"), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and 8 miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 98.7 square miles, had a 2000 census population of 332,969. The City's Planning and Development Services Department estimates the current population of the City to be 346,197 residents. The City operates under a Council-Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services. The City operates its water and wastewater system and its sanitary landfill operation as self-supporting enterprise funds.

The Certificates

$1,500,000 City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2003 (the "Certificates"), dated July 15, 2003, maturing on the dates set forth on the cover of this Official Statement. Interest will be paid on February 15, 2004, and on each August 15 and February 15 thereafter until maturity or prior redemption.

The Certificates are issued pursuant to the laws of the state of Texas and the ordinance (the "Ordinance") adopted by the City Council of the City.

Use of Proceeds

The proceeds from the sale of the Certificates are being used for acquisition of land, removal of structures, construction of recreational facilities, and ecosystem restoration for the City's Johnson Creek Project.

Security

The Certificates, when issued, will be payable from the proceeds of a direct and continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and from the surplus revenues of the City's combined water and wastewater system; provided, however, that such pledge of surplus revenues shall be limited to $1,000.

Mandatory Redemption

Certificates having a stated maturity of August 15, 2019 are subject to mandatory redemption by lot in each year beginning in 2015. Certificates having a stated maturity of August 15, 2023 are subject to mandatory redemption by lot in each of each year beginning in 2020. See Section Two herein – "Mandatory Redemption".

Optional Redemption

The Certificates maturing on and after August 15, 2014 are subject to redemption prior to maturity at par plus accrued interest, at the option of the City, on August 15, 2013 or on any date thereafter as described more fully in Section Two herein "Optional Redemption."

Legal Matters

The City will furnish a complete transcript of certain certified proceedings incident to the issuance and authorization of the Certificates, including a certified copy of the Ordinance containing the continuing disclosure agreement required pursuant to Rule 15c2-12 of the Securities and Exchange Commission, a certified copy of the approving opinion of the Attorney General of Texas to the effect that the Certificates are valid and legally binding obligations of the City, and the approving legal opinion of Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel, to like effect and to the effect that (i) the interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and (ii) the Certificates are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Certificates will not be subject to the alternative minimum tax on individuals and corporations except as described below under "Tax Exemption." In rendering the aforesaid opinion, the Attorney General of the State of Texas will review the transcript of proceedings relating to the Certificates, including the Certificate initially delivered to the initial purchaser or purchasers of such Certificates.

Bond Counsel has not examined and has not investigated or verified any statements, records, material or matters relating to the financial condition or capabilities of the City, and has assumed no responsibility for the preparation or contents of the Official Statement, except that in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement in order to verify that such descriptions conform to the provisions of the Ordinance. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. Bond Counsel's fee for services rendered with respect to the sale of the Certificates is paid on a "per bond" basis.

Litigation

The City is involved in a class action lawsuit in which the plaintiff alleges that the City's street maintenance fee as approved by the City Council in October 2000 is an illegal tax. The trial court has concluded that the fee is invalid; however, a final ruling and remedy has not yet been issued by the court. The range of exposure to the City in the event of a refund ruling is $8,200,000 to $9,200,000. The probability of an unfavorable outcome cannot be determined at this time.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of self insurance limitations (see "Self Insurance") or insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position, as a whole.

Delivery

The Certificates are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser or purchasers of the Certificates, subject to the approval of the Attorney General of Texas and Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel. Delivery of the Certificates is expected on or about August 28, 2003.

Paying Agent/Registrar

Payments of principal and interest will be payable by JPMorgan Chase Bank (the "Paying Agent/Registrar") to DTC or its nominee, Cede & Co., which will then remit such payments to the DTC participants for subsequent disbursement to the Beneficial Owners of the Certificates, as described in Section Two herein "Book-Entry-Only System."

Ratings

The Certificates have been rated AAA by Fitch Ratings; Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P") by virtue of an insurance policy to be issued by Financial Security Assurance Inc. concurrently with the delivery of the Certificates. The initial credit ratings on the Certificates are AA by Fitch Ratings; Aa2 by Moody's Investors Service, Inc. and AA by Standard & Poor's Rating Services. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any or all of such rating agencies if, in the judgment of any or all, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Certificates.

Registration and Qualification

The sale of the Certificates has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon exemptions provided therein; the Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been registered or qualified under the securities act of any jurisdiction. The City assumes no responsibility for registration or qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be offered, sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemptions from securities registration or qualification provisions.

Payment Record

The City has never defaulted on its revenue obligations and has not defaulted on its bonds payable from ad valorem taxation since 1935, when all such bonds were refunded at par with a reduction in interest rate.

Sale and Marketability of the Certificates

After requesting competitive bids for the Certificates, the City accepted the bid resulting in the lowest true interest cost, which was tendered by a syndicate managed by Citigroup Global Markets Inc. (the "Underwriter"), to purchase the Certificates bearing the interest rates shown under "Maturity Schedule," at a price of par value thereof plus a premium of $3,072.75 and accrued interest to the date of delivery, which resulted in a true interest cost of 4.508324 percent. The true interest cost is a percentage rate which, when used to compute the total present value as of the date of the Certificates (July 15, 2003) of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of par value of the Certificates plus any bond premium.

The City has no understanding with the Underwriter regarding the reoffering yields or prices of the Certificates, and has no control over trading of the Certificates after their initial sale by the City. Information concerning reoffering yield or prices is the responsibility of the Underwriter. The Underwriter will provide to the City on the next business day following the award of the bids information relating to the initial offering price of the Certificates. The City will rely on this information for purposes of compliance with the applicable provisions of the Code.

Preparation of Official Statement

Concurrent with the delivery of the Certificates, the City will furnish a certificate dated the date of delivery of the Certificates, signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement on the date of this Official Statement and on the date of delivery were and are true and correct in all material respects, did not and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading, and that no material adverse change has occurred in the financial condition of the City between the date of this Official Statement and the date of delivery of the Certificates other than as contemplated in the Official Statement. Such certificate will also state, however, that such City officials did not independently verify the information indicated in this Official Statement as having been obtained or derived from sources other than the City and its officers but that they have no reason to believe that such information is not accurate. None of the information contained in this Official Statement (with the exception of Appendix B) has been reported on by the City's independent auditors.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Certificates, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,932,647,000 and its total unearned premium reserve was approximately $1,077,095,000 in accordance with statutory accounting practices. At March 31, 2003, Financial Security's total shareholders' equity was approximately $2,043,103,000 and its total net unearned premium reserve was approximately $904,700,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City made the following agreement for the benefit of the owners and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings " Section Three: The City of Arlington"; "Section Four: Debt Structure and Capital Improvement Program"; and "Section Five: Financial Information" and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2003. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide notice that audited financial statements are not available and will provide unaudited financial statements for the applicable fiscal year to each NRMISR and any SID. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulations.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78798-2177, and its telephone number is 512/476-6947.

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Certificates, if such event is material to a decision to purchase or sell Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Certificates; (7) modifications to rights of owners of the Certificates; (8) obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates; and (11) rating changes. (Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRs and SID

The City has agreed to provide the foregoing information only to NRMSIRs and any SID. The information will be available to owners of Certificates only if the owners comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell the Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the owners and Beneficial Owners of the Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

The City has previously made continuing disclosure agreements in connection with the issuance of its bonds and obligations. The City is in compliance with its prior undertakings.

ADDITIONAL INFORMATION

For additional information regarding this document please contact Mr. Chuck Springer, Treasury Manager, City of Arlington, Texas, at (817) 459-6307.

SECTION TWO: THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

General

The Certificates are dated July 15, 2003, and mature on the dates set forth on the cover of this Official Statement. Interest is payable on February 15, 2004, and on each August 15 and February 15 thereafter until the earlier of maturity or prior redemption. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Security

The Certificates, when issued, will be payable from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and from the surplus revenues of the City's combined water and wastewater system; provided, however, that such pledge of surplus revenues shall be limited to $1,000.

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Certificates is excludable from gross income for federal income tax purposes under existing law and (ii) the Certificates are not "private activity bonds" under the Code, and interest on the Certificates will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of the proceeds of the Certificates and source of repayment thereof, limitations on the investment of proceeds of the Certificates prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds of the Certificates be paid periodically to the Unites States and a requirement that the City file an information report with the Internal Revenue Service. The City has covenanted in the Ordinance authorizing the issuance of the Certificates that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Certificates for federal income tax purposes and, in addition, will rely on representations by the City and the initial purchasers with respect to matters solely within the knowledge of the City and the initial purchasers, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants contained in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the respective Certificates could become taxable from the date of initial delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Certificates, is included in a corporation's "adjusted current earnings," ownership of the Certificates could subject a corporation to alternative minimum tax consequences.

Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

Except as stated above, and as stated below in "Tax Accounting Treatment of Original Issue Discount Certificates," Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of the Certificates.

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest on such as interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. 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 or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather such opinions represent Bond Counsel’s legal judgment based on its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations in includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit regardless of the outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Certificates

The initial public offering price to be paid for certain of the Certificates may be less than the principal amount thereof (the "Original Issue Discount Certificates"). In such case, Bond Counsel, under existing law and based upon the assumptions hereinafter stated, will render an opinion to the effect that:

(a) The difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate constitutes original issue discount with respect to such Original Issue Discount Certificate in the initial public offering of the Certificates; and

(b) Such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income. (Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Certificates under the caption "TAX EXEMPTION" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Certificate held by an owner who purchased such Certificate at the initial offering price in the initial public offering of the Certificates, and should be considered in connection with the discussion in this portion of the Official Statement.)

In rendering the foregoing opinion, Bond Counsel will assume, in reliance upon certain representations of the initial purchasers, that (a) the initial purchasers have purchased the Certificates for contemporaneous sale to the public and (b) all of the Original Issue Discount Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the City nor Bond Counsel warrants that the Original Issue Discount Certificates will be offered and sold in accordance with such assumptions. Certain of the representations of the initial purchasers, upon which Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts the initial purchasers had no reason to believe were not correct.

Under existing law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to the basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Certificates.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Certificates which are not purchased in the initial offering at the initial offering price may be determined according to the rules which differ from those described above. All owners of Original Issue Discount Certificates should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such accrual period on such Certificates.

Book-Entry-Only System - General

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates 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 certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange. Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, arid clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

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

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue 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.

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

Principal and interest payments on the Certificates 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 City or Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], Paying Agent/Registrar, or City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or Paying Agent/Registrar, disbursement of such payments to Direct and Indirect Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Book-Entry-Only System - Miscellaneous

The information in the Subsection entitled "Book-Entry-Only System-General" has been obtained by the City from DTC. The City takes no responsibility for the accuracy or completeness thereof. Neither the City nor the Paying Agent/Registrar will have any responsibility or obligations to DTC Participants or the persons for whom they act as nominees with respect to the payments to or the providing of notice to the DTC Participants, or the Indirect Participants, or Beneficial Owners. The City cannot and does not give any assurance that DTC Participants or others will distribute principal and interest payments paid to DTC or its nominees, as the registered owner, or any redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

Source of Payment for the Certificates

The opinion of Bond Counsel will state, among other things, that the Certificates constitute valid and legally binding obligations of the City and that ad valorem taxes upon all taxable property of the City necessary to pay the principal of and interest on the Certificates have been levied and pledged irrevocably for such purposes, within the limits prescribed by law.

The following is an excerpt from the ordinance authorizing the issuance of the Certificates:

> "Pursuant to the authority granted by the Texas Constitution and the laws of the State of Texas, there shall be levied and there is hereby levied for the current year and for each succeeding year hereafter while any of the Certificates or any interest thereon is outstanding and unpaid, an ad valorem tax on each one hundred dollars valuation of taxable property within the City, at a rate sufficient, within the limit prescribed by law, to pay the debt service requirements of the Certificates, being (i) the interest on the Certificates, and (ii) a sinking fund for their redemption at maturity or a sinking fund of two percent (2%) per annum (whichever amount is greater) when due and payable, full allowance being made for delinquencies and costs of collection.
>
> The ad valorem tax thus levied shall be assessed and collected each year against all property appearing on the tax rolls of the City most recently approved in accordance with law and the money thus collected shall be deposited as collected to the Interest and Sinking Fund.
>
> Said ad valorem tax, the collections therefrom, and all amounts on deposit in or required hereby to be deposited to the Interest and Sinking Fund are hereby pledged and committed irrevocably to the payment of the principal of and interest on the Certificates when and as due and payable in accordance with their terms and this Ordinance."
>
> "The amount of taxes to be provided annually for the payment of principal of and interest on the Certificates shall be determined and accomplished in the following manner:

(a) The City's annual budget shall reflect (i) the amount of debt service requirements to become due on the Certificates in the next succeeding Fiscal Year of the City, (ii) the amount on deposit in the Surplus Revenue Fund and the Interest and Sinking Fund, as of the date such budget is prepared (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) and (iii) the amount of Surplus Revenues estimated and budgeted to be available for the payment of such debt service requirements on the Certificates during the next succeeding Fiscal Year of the City.

(b) The amount required to be provided in the succeeding Fiscal Year of the City from ad valorem taxes shall be the amount, if any, the debt service requirements to be paid on the Certificates in the next succeeding Fiscal Year of the City exceeds the sum of (i) the amount shown to be on deposit in the Surplus Revenue Fund and the Interest and Sinking Fund (after giving effect to any payments required to be made during the remainder of the then current Fiscal Year) at the time the annual budget is prepared, and (ii) the Surplus Revenues shown to be budgeted and available for payment of said debt service requirements.

(c) Following the final approval of the annual budget of the City, the governing body of the City shall, by ordinance, levy an ad valorem tax at a rate sufficient to produce taxes in the amount determined in paragraph (b) above, to be utilized for purposes of paying the principal of and interest on the Certificates in the next succeeding Fiscal Year of the City."

The City has covenanted in the Ordinance that Surplus Revenues, to the extent provided in the Ordinance and not to exceed $1,000, are irrevocably pledged to the payment of the principal of and interest on the Certificates as the same become due.

Mandatory Redemption

Term Certificates maturing on August 15, 2019 and on August 15, 2023, are subject to mandatory sinking fund redemption prior to their scheduled maturity and will be redeemed by the City in part at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

Term Certificate Due 2019

Redemption Date	Principal Amount
August 15, 2015	$75,000
August 15, 2016	75,000
August 15, 2017	75,000
August 15, 2018	75,000
August 15, 2019 (maturity)	75,000

Term Certificate Due 2023

Redemption Date	Principal Amount
August 15, 2020	$75,000
August 15, 2021	75,000
August 15, 2022	75,000
August 15, 2023 (maturity)	75,000

The Paying Agent/Registrar shall call by lot the Term Certificates, or portion thereof, to be redeemed. The principal amount of the Term Certificates required to be redeemed on any redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption

Optional Redemption

The City has reserved the right and option to redeem the Certificates maturing on and after August 15, 2014, in whole or in part, on August 15, 2013, or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption. If less than all the Certificates are to be redeemed by the City, the City shall determine the maturity or maturities and the amounts thereof to be redeemed.

Notice of Redemption

Not less than 30 days prior to the redemption date, the Paying Agent/Registrar shall send a notice of redemption by United States mail, first class postage prepaid, to each registered owner (the "Owner") of a Certificate to be redeemed in whole or in part at the address of the Owner as shown on the records of the Paying Agent/Registrar at the time such notice of redemption is mailed, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by an Owner. Such notice shall, among other things, identify the redemption date, specify the redemption price, the place at which the Certificates are to be surrendered for payment and, if less than all of the Certificates are to be redeemed, the notice shall identify the Certificates or portions thereof to be redeemed. The notice of redemption shall also state that the Certificates so called for redemption shall cease to bear interest after the redemption date.

Redemption Procedures While Certificates Held by DTC

If the Certificates are being held by DTC under the book-entry system and less than all of such Certificates within a maturity are being redeemed, DTC's current practice is to determine by lot the amount of the interest of each DTC Participant in such maturity to be called for redemption, and each DTC Participant is to then select by lot the ownership interest in each maturity to be redeemed. See "Book-Entry-Only System - General" herein.

In the event the Certificates are no longer in the book-entry form at DTC, if less than all the Certificates are to be redeemed by the City, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot within a maturity the Certificates or portions thereof to be redeemed.

Owners' Remedies

The Ordinance provides that while any of the Certificates are outstanding there shall be levied, assessed and collected an ad valorem tax, within the limits prescribed by law, on all taxable property within the City, sufficient to pay principal of and interest on the Certificates when due and to pay the expenses necessary in collecting such taxes. The Ordinance provides for nonexclusive remedies to an Owner in the event of default, but the right to accelerate the debt evidenced by the Certificates shall not be available as a remedy under the Ordinance. Upon the happening and continuance of any event of default, any Owner may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained in the Ordinance, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of the Owners or any combination of such remedies. It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners. Each right or privilege of any Owner (or trustee thereof) shall be in addition to and cumulative of any other right or privilege and the exercise of any right or privilege by or on behalf of any Owner shall not be deemed a waiver of any other right or privilege thereof. The Owners cannot themselves foreclose on or sell property within the City in order to pay the principal of or interest on the Certificates. However, by a judicially issued writ of mandamus, an Owner can require the City Council to levy, assess and collect taxes in an amount sufficient to pay the principal of and interest on the Certificates, within the City's taxing limits prescribed by law.

While an Owner could obtain a judgment against the City, such a judgment could not be enforced by a direct levy and execution against property within the City. The enforceability of the rights and remedies of the Owners may further be limited by judicial discretion, the sovereign police powers of the State and laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City.

Registration

Registration and Payment. The Certificates will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Certificates. Principal and semiannual interest on the Certificates will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC Participants who will distribute such payments to the Beneficial Owners as described herein.

For so long as DTC is the securities depository for the Certificates, then the "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Certificates, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Certificates which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Certificates will be payable to the Owner at maturity or prior redemption upon presentation to the Paying Agent/Registrar. Interest on the Certificates will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owner(s) as shown on the records of the Paying Agent/Registrar on the last calendar day of the month preceding such interest payment date (the "Record Date"), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Certificates shall be a

Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

Future Registration. In the event that DTC is no longer the securities depository for the Certificates and a successor securities depository is not appointed by the City, the Certificates may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Certificate may be assigned by execution of an assignment form on the Certificates or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Certificates in accordance with the provisions of the Ordinance. Such new Certificate or Certificates must be in the denomination of $5,000 for any one maturity or any integral multiple thereof. The last assignee's claim of title to the Certificate must be proved to the satisfaction of the Paying Agent/Registrar.

Successor Paying Agent/Registrar. Provision is made in the Ordinance for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. The Paying Agent/Registrar selected by the City shall be a commercial bank, a trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Certificates. A successor Paying Agent/Registrar, if any, shall be determined by the City. Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Certificate or portion thereof, called for redemption prior to maturity, within 45 days prior to the date fixed for redemption.

AUTHORITY FOR ISSUANCE

The Certificates are issued pursuant to the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Local Government Code, V.T.C.A., and to the Ordinance passed by the City Council on the date of sale of the Certificates, to which reference is herein made.

Authorized Permanent Improvement Bonds and Use of Proceeds

The following table provides information on the outstanding permanent improvement bond authorizations.

	(amounts in thousands)		
Election Purpose	**Authorized Amount**	**Previously Issued [1]**	**Remaining to be Issued**
1993 Library Book Collection	$ 2,900	$ 2,900	$ -
1993 Library Renovation & Expansion	1,445	1,445	-
1993 Library Mobile and Portable Facilities	570	-	570
1997 Park and Recreation	37,860	31,585	6,275
1999 Street and Transportation	85,520	68,850	16,670
1999 Fire	7,605	7,605	-
1999 Library	3,725	3,000	725
2003 Animal Control	2,665	325	2,340
2003 Fire	4,935	1,750	3,185
2003 Library	2,435	-	2,435
2003 Police	10,935	2,270	8,665
2003 Erosion Control	1,900	-	1,900
Total	$162,495	$119,730	$42,765

[1] Includes amounts issued pursuant to the City's $41,930,000 Permanent Improvement and Refunding Bonds, Series 2003.

No Litigation Certificate

The City will furnish to the Underwriter a certificate, dated as of the date of delivery of the Certificates, to the effect that no litigation of any nature has been filed or is pending, as of such date, to restrain or enjoin the issuance and delivery of the Certificates, or which affects the provisions made for their payment or security, or in any manner questions the validity of the Certificates.

LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Certificates (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Certificates are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Certificates may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Certificates are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

SECTION THREE: THE CITY OF ARLINGTON

INTRODUCTION

The City is located in the eastern part of Tarrant County, equidistant between Dallas and Fort Worth on Interstate Highways 20 and 30, which are limited access highways. The City's location places it at the geographical center of the Dallas-Fort Worth metropolitan area. The land area of the City contained within its corporate boundary is approximately 98.7 square miles and approximately three quarters of a mile are contained within its extra-territorial jurisdiction.

The City was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas State Constitution. The City operates under a Council-Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services.

General

The City operates under the Council-Manager form of government as established by its Charter. There is a nine member City Council (the "Council") vested with local legislative power. Three council members and the Mayor are elected "at large" and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half the seats. The Council elects a Mayor Pro Tem from among its members.

Mayor and City Council

Policy-making and supervisory functions are the responsibility of and are vested in the Council under provisions of the City Charter. Ordinances, resolutions and zoning decisions are presented at Council meetings at 6:30 p.m. on each Tuesday. Council meetings are televised on the local cable public access station. A simple majority of the Council constitutes a quorum. The Mayor is required to vote on all matters considered by the Council, but has limited power to veto Council actions that can be overridden by simple majority action of the Council.

Administration

The City Manager is the administrative head of the municipal government and carries out the policies of the Council. With the assistance of three Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents. The City Manager is appointed by the Council and serves at the pleasure of the Council.

Excluding the positions and offices of the City Attorney and certain others whose appointments are reserved for Council action, the City Manager appoints and removes all City employees. The City Manager exercises control over all City departments and divisions and supervises their personnel; recommends Council legislative actions; advises Council on the City's financial conditions and needs; prepares and submits to Council the annual budget; and performs such duties required by Council.

Certain City Council Appointees

The Council appoints the City Attorney, who has management, charge, and control of all legal business of the City. He is chief legal advisor to the Council, the City Manager, and all City departments and agencies. It is his duty to advise Council concerning the legality of actions by the City and to represent the City in all matters affecting its interest.

The City's Municipal Court Judiciary provides for the adjudication of Class "C" misdemeanor cases, issuance of warrants and the arraignment of prisoners.

The Council also appoints members to certain boards, commissions, and authorities as it deems necessary to the operation of the City.

Principal Executive Officers

City Manager - Mr. Charles R. Kiefer - with the City since June 1978, he received his B.S. degree from Northern Kentucky University and his M.P.A. degree from Southern Methodist University and has completed the Harvard Program for Senior Government Executives. He was previously employed with the Kentucky Department for Local Government, and the City of University Park, Texas.

Deputy City Manager - Mr. David M. Kunkle - with the City since January 1985, he received his B.S. and his M.P.A. from the University of Texas at Arlington and has completed the Harvard Program for Senior Government Executives. Prior to joining the City, he served as Police Chief in Grand Prairie, Texas, and as a police Captain in Dallas, Texas.

Deputy City Manager - Ms. Gayle Lacerda - with the City since February 2000, she received her B.A. from Dallas Baptist University and has completed the Harvard Program for Senior Government Executives. Prior to rejoining the City, she served as Director of Human Resources for the City of Irving, Texas and for the Dallas-Fort Worth International Airport. She also served the City of Arlington as a Human Resources Manager from 1986 to 1995.

Acting Deputy City Manager - Mr. Charles F. Anderson - with the City since 1972, he received his B.A. in Chemistry from Texas Wesleyan University and has completed the Virginia Polytechnic Institute and State University Institute for Water and Wastewater Utility Management. Prior to joining the City, he worked for General Dynamics and served in the U.S. Army.

Chief Financial Officer - Ms. Donna Swarb - with the City since November 1998, she received her B.S. from Oklahoma Christian University and is a Certified Public Accountant. Prior to joining the City, she served as Director of Accounting for the University of Texas at Arlington.

City Attorney - Mr. Jay Doegey - with the City since March 1986, a graduate of Southern Illinois University, he received his law degree from the University of Texas. Prior to joining the City, he was Senior Assistant City Attorney for Corpus Christi, Texas.

City Secretary – Ms. Barbara Heptig - with the City since January 1997, she received an undergraduate and law degree from Washburn University of Topeka, Kansas. Prior to becoming City Secretary in 2003, she was an Assistant City Attorney for Arlington. Prior to joining the City, she was a partner with Cantey & Hanger and a litigation attorney for the United States Department of Labor.

Governmental Services and Facilities

The City provides a full range of municipal services including police and fire, health, parks and recreation, public works, planning, and general administrative services. Water and wastewater services and landfill operations are accounted for in the City's Enterprise Fund.

The City's main municipal facilities include a general administrative building, a public safety building, and a municipal court complex. There are 16 fire stations, two police stations and two substations, a police training center, a fire training center, one main and four branch libraries, 87 city parks, and four municipal golf courses.

Some of the other major facilities provided by the City include a convention center, five recreation centers, and a municipal airport.

The City of Arlington provides a comprehensive range of public services characteristic of its position as the most populous city in the Mid-Cities area of the Dallas-Fort Worth Metroplex. Presented in the following pages is a description of selected City agencies and departments contained within each of the three functional groups.

FUNCTIONAL GROUPS

Community Resources Group

The Deputy City Manager for Community Resources is responsible for oversight and management of four development related departments. The City functions covered by the Community Resources Group include Public Works, Water Utilities, Planning and Development Services, and Parks and Recreation.

The Public Works Department has recently been formed through the combination of the Engineering Services and Transportation functions. The Department of Public Works plans, designs, operates, acquires, constructs and maintains public facilities to ensure the safe and efficient movement of people, goods and storm water. New division level organization charts have been created and functions have been consolidated in the areas of transportation planning, engineering operations, traffic, signal engineering, geographic information systems, streets and storm water drainage.

The Water Utilities Department is responsible for assuring a continuous supply of high quality water and a safe and adequate wastewater service. Arlington's water treatment operations are nationally known and are recognized for their use of advanced technology. Transmission capacity has been designed to stay ahead of peak demands well into the 21st century. The Department has received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, and the American Water Works Association.

The Planning and Development Services Department is responsible for maintaining a long-range Comprehensive Plan which optimizes the physical, fiscal and natural resources of the City in its development. The Building Inspection Division enforces City ordinances regarding general construction, zoning, mechanical, electrical and plumbing activities. The planning staff provides coordination services in an effort to effectively facilitate program development and implementation. Additional responsibilities include developing the capital budget, and providing City staff and the general public with current zoning and inventory maps and a wide range of demographic statistics.

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,180 acres of parks, including four municipal golf courses and five recreational centers and for the management of the Arlington Community Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical and cultural needs of the citizens of Arlington.

Administration Group

The Deputy City Manager for Administration is responsible for the oversight and management of five City departments which include Finance, Human Resources, Technology Services, Support Services, Convention and Event Services, as well as the Internal Audit Division and the Office of Communications.

The Department of Finance oversees the financial affairs of the City and ensures the financial integrity of City operations. Departmental services include accounts payable, accounting, budgeting, purchasing, treasury management, risk management, and maintenance of the City's fixed assets inventory. It also oversees the Municipal Court Operations, and the City Secretary’s Office. The Municipal Court Operations collects court fines, sets trial dockets, and maintains the Municipal Court records. The City Secretary’s Office transcribes and maintains official City records, minutes and ordinances, and conducts City elections.

The Department of Human Resources is responsible for planning, developing, and administering the functions of employment, testing, training, and employee relations. It also administers the salary and benefit program and processes the payroll.

The Department of Technology Services has the responsibility for the processing and electronic storage of information used in the daily business of the City. The Geoprocessing Division is responsible for meeting the automated geographic information and mapping needs of the City.

The Department of Support Services is responsible for fleet operations, citywide telecommunication services, building construction management, and general services. It also has responsibility for 9•1•1 dispatch services and building maintenance operations.

The Convention and Event Services Department is responsible for the management of the Arlington Convention Center. The City contracts with the Arlington Convention and Visitors Bureau for the tourism marketing of the City of Arlington.

The Internal Audit Division monitors internal accounting controls of City assets, monitors security of electronic data and responds to management requests for analyses, appraisals, and recommendations.

The Office of Communications works with news media, issues publications, and implements programs to educate and inform citizens about City policies and programs.

Citizen Services Group

The Deputy City Manager for Citizen Services is responsible for the oversight and management of the Police, Fire, Library, and Neighborhood Services Departments.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 700 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 158,229 calls for service in fiscal year 2002. In 1989, the Police Department joined an elite number of police agencies nationwide in achieving the certification standards required by the Commission on Accreditation for Law Enforcement Agencies, Inc. The Department was recertified in 1999.

The City's Fire Department, which is responsible for fire prevention, fire suppression and first response emergency medical services, responded to approximately 28,900 calls for service in fiscal year 2002. The 297 employees of the Fire Department provide emergency responses from the City's 16 fire stations. The Emergency Management Office is responsible for coordinating major emergency disaster responses for the City.

The Library Department is responsible for the management and operation of the City's central library and four branch libraries. Circulation exceeds 1.5 million items annually.

The Neighborhood Services Department is responsible for enhancing the livability of neighborhoods through three Divisions and the Office of Neighborhood Initiatives. The Code Enforcement Division is responsible for enforcing City regulations related to the maintenance, sanitation, rehabilitation and conservation of existing housing. The Health Division is responsible for the inspection of food services establishments, public swimming pools and new septic system installations. In conjunction with Tarrant County, it operates the Public Health Center, which is responsible for administering immunizations to children and supplying preventive health screening for the elderly. The Health Division is also responsible for Animal Control Services and operations of the City's landfill. The Housing Division is responsible for administering federal and state grant funds and providing housing assistance to qualified citizens.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

The 2002 estimated population for the City of Arlington is 346,197. The following table presents population figures for selected years.

Population and Rates of Change
Arlington and the United States
Selected Years

Year	Arlington	Annual Rate of Change	United States	Annual Rate of Change
1950	7,692	-- %	150,697,361	-- %
1960	44,775	19.3	178,464,236	1.71
1970	90,229	7.3	203,211,926	1.31
1980	160,113	5.9	226,545,805	1.09
1990	261,721	5.0	248,765,170	0.94
2000	332,969 (1)	2.4	281,421,906	1.40
2002	346,197	2.0	288,368,698	1.23

(1) Actual 2000 Census population.

Source: U.S. Dept. of Commerce, U.S. Census, and the City Planning and Development Services Department estimates.

Per Capita Personal Income

	2001	2000	1999
Tarrant County	$31,232	$30,143	$28,414
Texas	28,472	27,992	26,244
United States	30,413	29,760	27,880

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Educational Facilities

Public education is provided principally by the Arlington Independent School District (the "AISD"), which overlaps all but a small portion of the City. The AISD has six senior high schools, twelve junior high schools, forty-nine elementary schools, and five alternative schools. Currently, a professional staff of approximately 4,146 serves a peak enrollment of 62,104 students.

The University of Texas at Arlington, founded in 1895, features a current enrollment of 23,821 and offers 183 degree programs at the baccalaureate, master and doctoral levels. The physical plant, located on a 392 acre campus, includes 99 academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in Arlington during 1996. Enrollment at the 166-acre site features a current enrollment of approximately 8,425 students. The college has 352 employees. The college offers associate degrees in Arts, and Applied Sciences and various technical certificates.

Summarized below is information concerning the Arlington Independent School District's annual peak enrollment and the percentage changes for the last ten fiscal years.

Public School Enrollment
Arlington Independent School District

Fiscal Year	Peak Enrollment	Percentage Change
1994	49,156	1.54%
1995	50,492	2.72
1996	52,328	3.64
1997	53,757	2.67
1998	54,961	2.24
1999	56,234	2.32
2000	57,433	2.13
2001	59,342	3.32
2002	60,760	2.39
2003	62,104	2.21

Source: Arlington Independent School District.

Employment

Arlington Major Employers

Name	Type of Business	Number of Employees
Arlington Independent School District	Public Education	7,927
University of Texas at Arlington	Higher Education	4,417
Six Flags Over Texas	Amusement Park	3,200(1)
Americredit	Finance	3,000
General Motors	Automobile Assembly	2,958
City of Arlington	Municipality	2,367
Southwest Sports Group	Major League Baseball and Hockey	1,800(1)
Arlington Memorial Hospital	Medical Center	1,300
Providian Financial	Financial Services	1,200
Chase Bank Call Center	Banking Services	1,100
National Semiconductor	Semiconductor Manufacturer	1,100
Bell Helicopter Textron Inc.	Manufacturer	1,000

(1) Includes part-time and peak seasonal employees.

Source: Arlington Chamber of Commerce, and City of Arlington Finance Department. This information will continue to be disclosed as long as it is available from the Chamber of Commerce or other reliable sources.

As illustrated in the table below, Arlington has managed to maintain lower unemployment rates than the United States and the State of Texas. For 2002, the City's unemployment rate averaged 5.4 percent as compared to the 2002 U.S. rate of 5.8 percent and the 2002 Texas rate, of 6.3 percent.

Unemployment Rate
Annual Average Rates
1998 to 2002

	2002	2001	2000	1999	1998
Arlington	5.4%	3.6%	2.8%	2.7%	2.9%
Texas	6.3	4.9	4.3	4.6	4.8
United States............................	5.8	4.8	4.0	4.2	4.5

Source: U.S. Bureau of Labor Statistics.

Financial Institutions

There are twenty-eight commercial banks and savings and loan associations operating a total of 56 free standing and six in-store branches in the City.

Building Permits

During the calendar year 2002, the City issued 6,324 building permits with a total value of $504,117,143. Presented below is a table covering building permit activity for the last three calendar years:

	2002		2001		2000	
	Number	Value (000's)	Number	Value (000's)	Number	Value (000's)
Residence	1,753	$233,542	2,490	$260,026	2,191	$227,695
Duplex	16	1,631	9	874	8	847
(No. of Units)	(32)	-	(18)	-	(16)	-
Apartments	12	13,240	22	14,886	13	5,122
(No. of Units)	(285)	-	(285)	-	(0)	-
Commercial	414	121,161	445	119,092	525	200,493
Institutional	40	80,560	35	10,005	67	70,000
Alterations and Additions	190	34,373	224	11,054	229	39,622
Signs	1,082	2,103	1,168	2,338	1,193	2,392
Miscellaneous	2,817	17,507	3,534	34,166	3,602	30,696
Total	6,324	$504,117	7,927	$452,441	7,830	$572,867

Source: City Building Inspections Division.

INVESTMENTS

The City invests its funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both state law and the City investment policies are subject to change.

Legal Investments

Under Texas law, the City is authorized to invest in (1) Bonds of the United States or its agencies and instrumentalities, (2) direct Obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage Obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other Obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, (5) Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit issued by a state or national bank, a savings bank or a state or federal credit union, in each case domiciled in the State of Texas, that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or (ii) secured by Obligations that are described in clauses (1) through (6) above, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates or (iii) in any other manner and amount provided by law for deposits of the City, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by Obligations described in clause (1) above and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term Obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in Obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; provided, however, that the City is not authorized to invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in such no-load mutual funds, and (13) for bond proceeds, guaranteed investment contracts that have a defined termination date, are secured by Obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount invested under the contract, and are pledged to the City and deposited with the City or with a third party selected and approved by the City.

Investment Policies

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all City funds must be invested in investments that protect principal, and consistent with the operating requirements of the City, and yield the highest possible rate of return. Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest City funds without express written authority from the City Council or chief executive officer of the City.

Current Investments

The City's primary investment objective is to provide for the protection of principal with an emphasis on safety and liquidity. The City maintains a comprehensive cash management program that includes prudent investment of its available funds. Investment maturities are targeted to provide available cash for the operating requirements of the City.

As of March 31, 2003, the following percentages of the City's operating funds were invested in the following categories of investments:

Type of Investment	% Invested
U.S. Treasury Notes & Bills	49.6%
Federal Agencies	39.2
Statewide Pool	9.1
Money Market Account	2.1
Totals	100.0%

As of March 31, 2003, the weighted average maturity of the City's operating portfolio was 140 days and the market value of the operating portfolio was 100.12 percent of its book value.

SECTION FOUR: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM

DEBT STATEMENT

Pursuant to the Constitution and laws of the State of Texas and the Charter of the City, the City is authorized to issue general obligation bonds secured by an ad valorem tax on all property within its boundaries subject to local taxation. A tax rate limitation is imposed by the Home Rule Section of the Texas Constitution, Article XI, Section 5, that allows a maximum tax rate of $2.50 per $100.00 assessed valuation.

The following table details the ad valorem tax-supported debt of the City as of July 15, 2003:

Total Outstanding Tax-Supported Debt [(1)]	$323,740,000
Certificates, Series 2003	1,500,000
Total Tax-Supported Debt	325,240,000
Less Self-Supporting Debt [(2)]	15,110,238
Net Tax-Supported Debt	$310,129,762

[(1)] Includes the $41,930,000 Permanent Improvement and Refunding Bonds, Series 2003.
[(2)] See "Debt Service Requirements -- Net Tax-Supported Debt."

Source: City Finance Department.

DEBT INFORMATION

Information on the City's indebtedness is presented in the following tables. Included is information on key debt ratios, rapidity of principal retirement and selected debt service schedules.

In addition to the currently outstanding ad valorem tax-supported debt previously issued by the City, the City has also issued certain combination ad valorem tax and revenue supported debt and has incurred contractual and other indebtedness and liabilities payable from ad valorem taxation. Additionally, the City has issued revenue bonds and other indebtedness payable from specific pledged revenues. Various other political subdivisions, which overlap all or a portion of the area of the City are also empowered to incur debt to be paid from revenues raised or to be raised through taxation.

Key Debt Ratios
Fiscal Years 1993-2002

Fiscal Year	Estimated Population[1]	Taxable Assessed Valuation Calendar Year[2]	Net Tax-Supported Debt Year Ended September 30[3]	Ratio of Net Tax-Supported Debt: Per Capita	Ratio of Net Tax-Supported Debt: Assessed Valuation
1993	271,325	$ 8,380,499,546	$ 209,638,000	$773	2.50%
1994	276,614	8,462,723,535	215,865,000	780	2.55
1995	281,180	9,121,092,236	225,751,000	803	2.48
1996	286,293	9,703,921,853	234,180,000	818	2.41
1997	289,315	10,180,990,795	248,949,000	860	2.45
1998	293,991	10,868,585,827	251,622,000	856	2.32
1999	309,859	11,415,146,297	268,633,000	867	2.35
2000	332,969 [4]	12,435,152,758	276,879,000	832	2.23
2001	339,215	13,513,378,507	286,398,601	844	2.12
2002	346,197	14,344,001,305	284,539,762	822	1.98

(1) Population estimates are based on percent of occupancy in available residences and census data. The method for estimating occupancy rates was revised beginning in 1999.
(2) Taxable assessed valuation is obtained from the certified value as of September of each tax year including minimum estimated value of property under protest.
(3) These figures do not include self-supporting debt.
(4) Actual 2000 Census population.

Source: City Finance Department.

Rapidity of Principal Retirement[1]
All General Obligation Debt

Maturing Within	Amount Maturing	Percent of Total Debt Outstanding
5 years	$128,765,000	39.6%
10 years	221,725,000	68.2
15 years	293,160,000	90.1
20 years	323,950,000	99.6

(1) As of July 15, 2003, including the Certificates.

Source: City Finance Department.

DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements on the City's outstanding debt payable from ad valorem taxation pledged thereto.

General Obligation Bonds
Tax-Supported Debt Service Requirements

Fiscal Year Ending 9/30	Outstanding General Obligation Debt[1] Principal	Interest	Total	The Certificates[2] Principal	Interest	Total	Total Debt Service
2003	$ 27,420,000	$ 7,108,823	$ 34,528,823	$ 0	$ 0	$ 0	$ 34,528,823
2004	28,195,000	14,828,607	43,023,607	75,000	68,587	143,587	43,167,194
2005	26,745,000	13,162,722	39,907,722	75,000	65,625	140,625	40,048,347
2006	24,170,000	11,947,658	36,117,658	75,000	61,500	136,500	36,254,158
2007	21,935,000	10,857,192	32,792,192	75,000	57,375	132,375	32,924,567
2008	20,920,000	9,825,896	30,745,896	75,000	53,250	128,250	30,874,146
2009	19,035,000	8,775,454	27,810,454	75,000	49,125	124,125	27,934,579
2010	17,695,000	7,837,847	25,532,847	75,000	46,125	121,125	25,653,972
2011	17,730,000	6,951,831	24,681,831	75,000	43,125	118,125	24,799,956
2012	17,205,000	6,063,381	23,268,381	75,000	40,125	115,125	23,383,506
2013	16,465,000	5,186,951	21,651,951	75,000	37,125	112,125	21,764,076
2014	15,490,000	4,362,165	19,852,165	75,000	34,125	109,125	19,961,290
2015	14,205,000	3,578,786	17,783,786	75,000	31,125	106,125	17,889,911
2016	13,070,000	2,871,593	15,941,593	75,000	27,750	102,750	16,044,343
2017	11,830,000	2,214,415	14,044,415	75,000	24,375	99,375	14,143,790
2018	9,720,000	1,616,127	11,336,127	75,000	21,000	96,000	11,432,127
2019	8,470,000	1,118,982	9,588,982	75,000	17,625	92,625	9,681,607
2020	5,730,000	683,147	6,413,147	75,000	14,250	89,250	6,502,397
2021	4,090,000	387,722	4,477,722	75,000	10,688	85,688	4,563,410
2022	2,405,000	181,000	2,586,000	75,000	7,125	82,125	2,668,125
2023	1,215,000	60,750	1,275,750	75,000	3,562	78,562	1,354,312
	$323,740,000	$119,621,049	$443,361,049	$1,500,000	$713,587	$2,213,587	$445,574,636

[1] As of July 15, 2003, including the $41,930,000 Permanent Improvement and Refunding Bonds, Series 2003.

[2] FY 2004 is net of accrued interest.

Source: City Finance Department.

NET TAX SUPPORTED DEBT

Fiscal Year Ending 9/30	Outstanding General Obligation Debt [(1)]		Self Supporting Debt [(2)]		Net Tax Supported Debt
	Principal	Interest	Principal	Interest	Total
2003	$ 27,420,000	$ 7,108,823	$ 1,082,778	$ 859,173	$ 32,586,872
2004	28,270,000	14,897,194	1,089,006	794,872	41,283,316
2005	26,820,000	13,228,347	1,103,454	732,625	38,212,268
2006	24,245,000	12,009,158	610,000	568,121	35,076,037
2007	22,010,000	10,914,567	640,000	541,281	31,743,286
2008	20,995,000	9,879,146	670,000	512,481	29,691,665
2009	19,110,000	8,824,579	700,000	482,331	26,752,248
2010	17,770,000	7,883,972	735,000	450,831	24,468,141
2011	17,805,000	6,994,956	770,000	416,838	23,613,118
2012	17,280,000	6,103,506	805,000	380,262	22,198,244
2013	16,540,000	5,224,076	845,000	342,025	20,577,051
2014	15,565,000	4,396,290	890,000	301,888	18,769,402
2015	14,280,000	3,609,911	935,000	258,500	16,696,411
2016	13,145,000	2,899,343	980,000	211,750	14,852,593
2017	11,905,000	2,238,790	1,030,000	162,750	12,951,040
2018	9,795,000	1,637,127	1,085,000	111,250	10,235,877
2019	8,545,000	1,136,607	1,140,000	57,000	8,484,607
2020	5,805,000	697,397	0	0	6,502,397
2021	4,165,000	398,410	0	0	4,563,410
2022	2,480,000	188,125	0	0	2,668,125
2023	1,290,000	64,312	0	0	1,354,312
	$325,240,000	$120,334,636	$15,110,238	$7,183,978	$423,280,420

(1) As of July 15, 2003, including the $41,930,000 Permanent Improvement and Refunding Bonds, Series 2003 and the Certificates.

(2) Includes $1,595,238 of the Permanent Improvement Refunding Bonds, Series 1993 (the "Series 1993 Refunding Bonds") which has historically been paid with hotel occupancy tax revenues and $13,515,000 Combination Tax and Revenue Certificates of Obligation, Series 1998, payable from a combination of hotel occupancy tax revenues and ad valorem taxes as described under "Hotel Occupancy Tax Certificates of Obligation" below. To the extent that such revenues are insufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax.

Source: City Finance Department.

Hotel Occupancy Tax Certificates of Obligation

The Combination Tax and Revenue Certificates of Obligation, Series 1998 (the "Certificates"), are currently outstanding as of June 15, 2003, in the aggregate principal amount of $13,515,000 and payable from (1) the proceeds of a continuing direct ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City, and (2) a portion of the revenues derived by the City from the hotel occupancy tax. The hotel occupancy tax presently is levied and collected under authority of V.T.C.A., Government Code, Chapter 1504, as amended, and V.T.C.A., Tax Code, Chapter 351.

The Combination Tax and Revenue Certificates of Obligation, Series 1998, pledge the "Surplus Revenues" of the City's hotel occupancy tax levied and collected under authority of V.T.C.A., Government Code, Chapter 1504, and V.T.C.A., Tax Code, Chapter 351, remaining after payment of all current and future debt obligations payable in whole or in part from the City's hotel occupancy tax receipts. The following excerpt from the ordinance authorizing the Combination Tax and Revenue Certificates of Obligation, Series 1998, describes the method of payment:

"The amount of taxes to be provided annually for the payment of principal of and interest on the Certificates shall be determined and accomplished in the following manner:

(a) the City's annual budget shall reflect (i) the amount of debt service requirements to become due on the Certificates in the next succeeding Fiscal year of the City, (ii) the amount on deposit in the Interest and Sinking Fund, as of the date such budget is prepared (after giving effect to any payments required to be made during the remainder of the then current Fiscal year) and (iii) the amount of Surplus Revenues estimated and budgeted to be available for the payment of such debt service requirements on the Certificates during the next succeeding Fiscal year of the City.

(b) The amount required to be provided in the succeeding Fiscal year of the City from ad valorem taxes shall be the amount, if any, the debt service requirements to be paid on the Certificates in the next succeeding Fiscal year of the City exceeds the sum of (i) the amount shown to be on deposit in the Interest and Sinking Fund (after giving effect to any payments required to be made during the remainder of the then current Fiscal year) at the time the annual budget is prepared, and (ii) the Surplus Revenues shown to be budgeted and available for payment of said debt service requirements.

(c) Following the final approval of the annual budget of the City, the governing body of the City shall, by ordinance, levy an ad valorem tax at a rate sufficient to produce taxes in the amount determined in paragraph (b) above, to be utilized for purposes of paying the principal of and interest on the Certificates in the next succeeding Fiscal year of the City."

The City also will use hotel occupancy taxes to pay a portion of the debt service on the Series 1993 Refunding Bonds. Based on a calculation of the pro rata share of debt service on the Series 1993 Refunding Bonds, the hotel occupancy tax will provide $2,118,593 of the total debt service on the Series 1993 Refunding Bonds from October 1, 2002 through fiscal year 2005.

In the fiscal year 2002-03 Budget, the City estimated that $4,675,000 of hotel occupancy tax will be received by the City during fiscal year 2002-03 which amount exceeds the $1,941,951 of debt service requirements on Combination Tax and Revenue Certificates of Obligation, Series 1998, and the allocable portion of Series 1993 Refunding Bonds for fiscal year 2003. As shown in the section hereof entitled "Tax Data - Hotel Occupancy Tax Receipts," hotel occupancy tax revenues in the fiscal years 1998 through 2002 have been more than adequate to pay debt service requirements on the Certificates and Series 1993 Refunding Bonds.

Tax Adequacy

The following analysis as of July 15, 2003 including the Certificates and the $41,930,000 Permanent Improvement and Refunding Bonds, Series 2003, assumes 98 percent collection of ad valorem taxes levied against the City's 2002 Net Assessed Valuation, and future hotel occupancy tax collections at a level sufficient to pay debt service on the Combination Tax and Revenue Certificates of Obligation, Series 1998, and the allocable portion of the Series 1993 Refunding Bonds.

Average Annual Requirement (2004/2023)	$19,534,677
A tax rate of $.1390 per $100 assessed valuation produces	19,539,399
Average Annual Requirement (2004/2013)	29,361,537
A tax rate of $.2089 per $100 assessed valuation produces	29,365,326
Maximum Annual Requirement (2004)	41,283,316
A tax rate of $.2937 per $100 assessed valuation produces	41,285,765

SHORT-TERM BORROWING

The City does not borrow on a short-term basis for working capital purposes. The City's policy is to maintain its fund balances at levels that provide sufficient cash flow for working capital purposes.

ESTIMATED OVERLAPPING DEBT

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities within which the City is located or with which taxable property is jointly levied against, and the estimated percentages and amounts of such indebtedness attributable to taxable property within the City. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance purposes. Furthermore, certain of the entities listed may have issued additional obligations since the date stated in the table, and such entities may have programs requiring the issuance of substantial additional amounts of indebtedness, the amount of which cannot be determined.

Overlapping Debt
(amounts in thousands)

Taxing Jurisdiction	Amount[1]	As of	Percent[2]	Amount
City of Arlington [3]	$310,130	6-15-03	100.00 %	$ 310,130
Arlington Independent School District	576,135	8-31-02	78.16	450,307
Tarrant County	162,590	9-30-02	18.37	29,868
Tarrant County Junior College District	78,213	8-31-02	18.37	14,368
Tarrant County Hospital District	44,605	9-30-02	18.37	8,194
Kennedale Independent School District	15,675	8-31-02	20.91	3,278
Mansfield Independent School District	203,769	8-31-02	11.66	23,759
Hurst-Euless-Bedford I.S.D.	243,940	8-31-02	3.90	9,514
Total Direct and Overlapping Debt [4]				$849,418
Overlapping debt as a percent of 2002 assessed value		5.9%		
Overlapping debt per capita		$2,454		
Per capita overlapping debt as a percent of 2001 Tarrant County per capita personal income		7.9%		

(1) Source: Net debt outstanding per representative of each jurisdiction.
(2) Source: Texas Municipal Reports, compiled and published by Municipal Advisory Council of Texas.
(3) See “Debt Statement.”
(4) Substantially all of the City's residents are located within the Arlington I.S.D. Although Fort Worth I.S.D. also has taxing jurisdiction within a portion of the City, reference to this district has been intentionally omitted because less than 1 percent of its total debt is paid by residents of the City.

CAPITAL IMPROVEMENT PROGRAM

The City's Capital Improvement Program ("CIP") provides for multi-year improvements to the City's public facilities along with the means of financing these improvements. The City's CIP, prepared annually, is primarily driven by recent bond election results. The City's most recent permanent improvement bond election was held on February 1, 2003. Six propositions were on the ballot totaling $103,485,000. Five propositions on the ballot totaling $22,870,000 were approved by the voters. The five approved propositions were animal services center ($2,665,000), police ($10,935,000), fire ($4,935,000), storm drainage and erosion control ($1,900,000), and libraries ($2,435,000). The $80,615,000 proposition for street and transportation was not approved by voters. Combined with the authorized but unissued bonds from prior elections, and giving effect to the issuance of the $41,930,000 Permanent Improvement and Refunding Bonds, Series 2003, the City has $42,765,000 in unissued permanent improvement bonding authority.

The approved CIP is the result of a process that balances the need for public facilities against the fiscal capability of the City to provide for those needs. The City’s tax-supported CIP for fiscal year 2002-03 is budgeted at $27,240,000.

Capital Improvement Program
Bond Elections (1993, 1997, 1999 and 2003)
and 2003 Certificate Sale
(amounts in thousands)

Sources	Estimated Total Costs	Total Financing To Date	Current Issue	Total Amount Remaining	Percent of Total Amount Remaining
Permanent Improvement Bonds	$162,495	$119,730	$ -	$42,765	100.0%
2003 Certificates of Obligation	1,500	-	1,500	-	-
Total	$163,995	$119,730	$1,500	$42,765	100.0%

Capital Improvement Program
Bond Elections (1993, 1997, 1999 and 2003)
and 2003 Certificate Sale
(amounts in thousands)

Uses	Estimated Total Costs	Financing To Date	Current Issue	Total Amount Remaining	Percent of Total Amount Remaining
Library	$ 11,075	$ 7,345	$ -	$ 3,730	8.7 %
Parks and Recreation	37,860	31,585	-	6,275	14.7
Streets, Storm Drainage and Transportation	85,520	68,850	-	16,670	39.0
Police	10,935	2,270	-	8,665	20.3
Fire	12,540	9,355	-	3,185	7.4
Animal Control	2,665	325	-	2,340	5.5
Erosion Control	1,900	-	-	1,900	4.4
2003 Certificates of Obligation	1,500	-	1,500	-	-
Total	$163,995	$119,730	$1,500	$42,765	100.0%

SECTION FIVE: FINANCIAL INFORMATION

BASIS OF ACCOUNTING AND ACCOUNTING STRUCTURE

The accounting records of the City are maintained on the modified accrual basis of accounting for the General Fund, Special Revenue Funds, Capital Projects Funds and Trust and Agency Funds and on the accrual basis of accounting for the Enterprise Funds and the Internal Service Funds. In general, under the modified accrual basis of accounting, revenues are recorded as received in cash except for material revenues considered to be both measurable and available to finance current year appropriations, which are recognized as revenue when earned. Expenditures are recorded in the period in which liabilities are incurred. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when liabilities are incurred without regard to receipts or disbursements of cash. See "Notes to Financial Statements" in Appendix B for a more detailed discussion of the City's accounting policies.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arlington for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2002. During 1986, GFOA renamed the Certificate Program to better reflect its purpose. Under the former name, GFOA first awarded a Certificate of Conformance to the City for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 1999. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2002.

ACCOUNTING STANDARDS

In fiscal year 2002, the City adopted three new statements of financial accounting standards and one new interpretation issued by the Governmental Accounting Standards Board (GASB):

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments. Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types and the pension trust fund. The following major funds are used by the City:

Governmental Funds

The following is a description of the Governmental Funds of the City:

General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. Street capital project fund accounts for the financing and acquisition of right of way and construction of streets and related facilities. Funds are provided primarily through bond sales, and interest earnings. Other Governmental Funds is a summarization of all of the non-major governmental funds.

Proprietary Funds

The following is a description of the major Proprietary Funds of the City:

Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and Bonds under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund. Sanitary Landfill Fund accounts for the operations of the City's landfill. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.

Other Fund Types

The City additionally reports for the following Fund types:

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis. Agency Funds are used to account for assets held by the City in an agency capacity for individuals, local law enforcement agencies or developers. Pension Trust Fund is used to account for the accumulation of resources to be used for the retirement benefit payments to employees of the City.

Component Units

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component Units discretely presented include the Arlington Sports Facilities Development Authority, Inc., the Arlington Housing Authority, the Arlington Housing Finance Corporation, the Arlington Convention & Visitors Bureau, Inc., and the Arlington Industrial Development Corporation.

CERTAIN OPERATIONS OF THE GENERAL FUND

The General Fund of the City is that accounting entity which is used to account for all transactions which are not accounted for in another fund and which, specifically, receives all revenues and records all expenditures relating to the ordinary operations of general government. Other major funds of the City are the Special Revenue Funds, Capital Project Funds, the Enterprise Funds, and the Debt Service Funds.

Summaries for fiscal years 1998 to 2002 have been compiled from the Comprehensive Annual Financial Reports of the City, which were examined by the City's independent auditors. These summaries should be read in conjunction with their related financial statements and notes.

Consolidated Financial Statements-General Fund
Fiscal Year Ended September 30
(amounts in thousands)

	2002	2001	2000	1999	1998
Beginning Fund Balance	$21,661[1]	$18,221	$19,095	$15,264	$11,461
Revenues					
Ad Valorem Taxes	46,026	40,593	36,522	34,840	31,573
Sales Tax	41,173	44,436	43,384	39,130	37,573
Other Taxes	3,649	3,487	3,247	3,039	2,918
Franchise Fees	29,635	31,201	26,639	23,187	21,422
Service Charges	5,648	4,822	3,551	4,352	4,866
Interest	803	1,241	1,222	1,023	678
All Other	15,522	10,283	9,036	9,010	7,694
Total Revenues	142,456	136,063	123,601	114,581	106,724
Expenditures					
Total Expenditures	144,316	133,496	127,280	113,833	105,840
Net Revenues Over (Under) Expenditures	(1,860)	2,567	(3,679)	748	884
Operating Transfers	906	(1,129)	2,805	3,083	2,919
Ending Fund Balance	$20,707	$19,659	$18,221	$19,095	$15,264

[1] Restated Fund Balance due to reclassification of prior year liabilities.

For the fiscal year ended September 30, 2002, the General Fund had revenues and transfers lower than expenditures by $954,000, or 0.66 percent of General Fund revenues, leaving a General Fund balance at September 30, 2002, of $20,707,000. The following table presents a comparison of the City's General Fund balance for fiscal years 1998 to 2002.

General Fund Balance
Fiscal Year Ended September 30
(amounts in thousands)

	2002	2001	2000	1999	1998
General Fund Balance:					
Reserved for					
Encumbrances	$ 1,526	$ 1,379	$ 1,129	$ 1,432	$2,381
Inventory	279	336	489	508	549
Prepaids	48	24	32	32	69
Infrastructure Maintenance	-	-	350	1,930	-
Park Acquisition	-	-	-	500	-
Working Capital	12,195	11,389	11,335	10,835	8,189
Utility Rate Case	500	500	500	477	502
Special Transportation	-	-	-	816	902
Net Increase in Fair Value	-	-	-	-	2
Unreserved					
Designated for Telecommunications	754	357	195	194	299
Designated for Subsequent Years' Expenditures	3,429	2,633	2,633	2,371	2,371
Arbitrage	824	-	-	-	-
Compensated absences	1,152	-	-	-	-
Undesignated	-	3,041	1,551	-	-
Total General Fund Balance	$20,707	$19,659	$18,221	$19,095	$15,264
General Fund Balance as a Percent of General Fund Expenditures	14.35%	14.73%	14.32%	16.77%	14.42%

Source: Fiscal Year 1998 to 2002 Comprehensive Annual Financial Reports.

DEBT SERVICE FUND BUDGET

Fiscal Year 2002-2003
(amounts in thousands)

Beginning Fund Balance	$ 1,747
Property Tax Revenue	38,795
Interest Revenue	530
Transfers In [1]	3,355
Debt Service Expenditures	(42,621)
Estimated Ending Fund Balance	$ 1,806

[1] Includes transfers to the Debt Service Fund from the Convention and Event Services Fund, Park Performance Fund, Landfill Fund, and Water and Wastewater Fund.

Source: Fiscal Year 2003 Budget and Fiscal Year 2002 CAFR.

CURRENT OPERATING BUDGET

On September 17, 2002, the City Council adopted a total General Fund Budget (or "Budget") for fiscal year 2003 with expenditures of $301,792,206. The adopted General Fund Budget reflects a property tax rate of $0.6340/$100.

The adopted Budget for fiscal year 2003 maintains core services levels and programs within tight financial constraints. The adopted Budget added 11 new positions and eliminated 23 positions for a net reduction of 12 positions. No change in compensation was included in the adopted Budget. The overall value of taxable property in the City increased by 6.1 percent, from $13.513 billion in calendar year 2001 to $14.344 billion in calendar year 2002. The adopted Budget authorizes City government personnel of 2,380 full-time positions.

Current projections for General Fund revenues are $5.4 million below budgeted General Fund revenues for fiscal year 2003, primarily due to lower than anticipated sales tax revenues. Accordingly, General Fund expenditure reductions estimated at $5.4 million have been implemented for the current fiscal year.

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2003, as reported in the adopted Budget.

Estimated Revenues and Budgeted Expenditures
Fiscal Year 2003 Budget [1]
(amounts in thousands)

	Fiscal Year 2003 Budget	Percent of Fiscal Year 2003 Budget
REVENUES		
Property Taxes	$ 90,882	29.4%
Sales Tax	41,578	13.4
Other Taxes	1,462	0.5
Licenses and Permits	3,883	1.3
Utility Franchise Fees	30,907	10.0
Fines and Forfeitures	7,062	2.3
Leases and Rents	3,456	1.1
Services Charges	13,952	4.5
Miscellaneous Revenues	664	0.1
Water and Sewer Fund Revenues	89,818	29.0
Convention & Event Services Fund Revenues	7,425	2.4
Sanitary Landfill Fund	5,799	1.9
Street Maintenance Fund	5,126	1.7
Park Performance Fund	7,311	2.4
Total Revenues	$309,325	100.0%
EXPENDITURES		
General Government	$ 8,084	2.6%
Police	57,329	18.4
Fire	31,050	10.0
Neighborhood Services	4,918	1.6
Planning and Development Services	3,742	1.2
Parks and Recreation	13,760	4.4
Transportation/Engineering Services	13,399	4.3
Library	5,180	1.7
Administrative and Support Services	18,574	6.0
Water and Sewer Fund	78,095	25.0
Convention & Event Services Fund	5,744	1.8
Sanitary Landfill Fund	4,799	1.5
Park Performance Fund	6,957	2.2
Street Maintenance Fund	7,540	2.4
Debt Service	42,621	13.7
Transfers (Net)[2]	10,053	3.2
Total Expenditures	$311,845	100.0%

(1) All funds combined.
(2) $8,500 of Transfers (Net) is a contribution from the Water and Wastewater Operating Fund for Water and Wastewater System capital improvements.

Source: Fiscal Year 2003 Budget.

GENERAL FUND REVENUES AND EXPENDITURES

The General Fund is the primary operating fund maintained by the City to account for revenue derived from City-wide ad valorem taxes, other local taxes, licenses, fees, permits, and certain other miscellaneous revenues. General Fund expenditures are the cost of general City government. The following is a discussion of the General Fund revenue structure and major classifications of General Fund expenditures.

TAX DATA

General

A major source of operational revenue and funds for tax-supported debt service payments is the receipts from ad valorem taxation. The following is a recapitulation of (1) the authority for taxation, including methodology, limitations, remedies and procedures; (2) historical analysis of collection and trends of tax receipts and provisions for delinquencies; and (3) an analysis of (a) the base, (b) the principal taxpayers, and (c) other ad valorem taxation that may compete with the City's tax collections. Additionally, sales tax and hotel occupancy tax authority and collections are described.

Authority for Ad Valorem Taxation

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population, limits the ad valorem tax rate to $2.50 per $100 assessed valuation for all city purposes and makes no allocation of such tax rate between debt service requirements and expenses of general city government. The City operates under a Home Rule Charter that adopts these provisions of the Constitution. For fiscal year 2003, the Council levied a tax rate equal to $0.6340 per $100 assessed valuation of which $0.2720 was allocated to pay debt service on outstanding tax-supported bonds and notes. See "Tax Rate Distribution."

Truth-in-Taxation Limitation

The effective tax rate is the rate that will produce the same amount of operating revenue that the City levied the prior year on the same property. If the tax rate adopted for the next succeeding fiscal year exceeds the effective tax rate by more than eight percent, the qualified voters of the City may petition for an election to determine whether to limit the increase of the tax rate to no more than eight percent. The City is required to hold public hearings to permit voter discussion should the proposed tax rate levy taxes in excess of the amount levied the prior fiscal year.

Property Subject to Taxation

All real property and tangible personal property in the City is subject to taxation except for certain mandated and discretionary exemptions granted pursuant to State law and the Property Tax Code. The Property Tax Code mandates exemption of public property, property exempt by federal law from ad valorem taxes, household goods, personal effects of an individual, and certain property of religious and charitable organizations, schools, and disabled veterans. The Property Tax Code authorizes cities to exempt the residential homestead of those over 65 years of age and the disabled. The Council currently exempts up to $60,000 of the appraised value of such residential homesteads. The 2002 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling $623,227,827.

Article VIII, Section 1-b of the Texas Constitution provides the City with the authority to exempt a percentage of the market value of residential homesteads. The percentage may not exceed 20 percent in 2002 and each subsequent year. Where an ad valorem tax has previously been pledged for the payment of debt, the Council may continue to levy and collect the tax against the value of the exempt homesteads until the debt is discharged if the cessation of the levy would impair the obligation. The Council granted 20 percent residential homestead exemptions on the 2002 tax roll, which totaled $1,481,255,613, or 10.3 percent of the 2002 assessed valuation. In addition, $72,732,165 of value was reduced from the 2002 tax rolls in accordance with State law to reflect value of agricultural land based upon production rather than market value.

Section 23.83 of the Property Tax Code allows taxes to be deferred on property that is restricted to scenic use. Deferrals were first claimed under this section in 1990. The 2002 tax roll reveals a value loss of $2,593,148 due to scenic deferrals.

Chapter 312 of the Property Tax Code allows the Council to designate reinvestment zones and to enter into tax abatement agreements with property owners within these zones. The abatement value loss on the 2002 Tax Roll is $509,488,606. A schedule of abated values for the 2002 tax roll by property owners is as follows:

Property Owner	2002 Abatement Value
General Motors	$ 288,077,093
National Semiconductor	66,703,412
Doskocil Manufacturing	34,210,444
Americredit	18,892,918
Chase Bank	17,283,405
Providian	13,173,290
Primeco	12,512,959
Americredit 2001	11,381,705
Prologis/Mackie	11,365,971
Aetna	8,067,518
Lear Operations	5,353,861
Mackie Automotive	5,202,168
Office Depot	4,098,286
Eden Road Investments	4,050,000
Americredit Leases	3,413,135
Primera	3,311,087
Lamar Ltd.	2,391,354
Total	$509,488,606

With the passage of Proposition 5 on November 7, 1989, the State Constitution was amended to allow for the taxation of temporarily located inventory on a local option basis. To continue taxation of this so called "freeport" property, the governing body of a taxing entity, such as the Council, was required to take action prior to January 1, 1990. The Council adopted an ordinance, which allowed for the continued taxation of "freeport" property for 1990 and subsequent years. On January 13, 1998, the Council repealed the aforementioned ordinance, which has the effect of exempting “freeport” property from taxation effective January 1, 1999. This exemption is irrevocable under current State law. The amount of "freeport" assessed value subject to exemption for the 2002 tax roll was $108,824,071.

2003 Texas Legislative Session: Additional Homestead Exemption for Elderly and Disabled

The Regular Session of the Texas Legislature ended June 2, 2003. H.J.R. 16, a joint resolution passed by both houses of the Legislature, proposes an amendment to Section 1-b, Article VIII of the Texas Constitution that would authorize a county, city, town or junior college district to establish an ad valorem tax freeze on residence homesteads of the disabled and of the elderly and their spouses. A ballot proposition on the constitutional amendment will be submitted to voters at a statewide election on September 13, 2003. If the proposition is approved, the City Council will be authorized to freeze ad valorem taxes on residence homesteads of persons who are disabled or sixty-five years of age or older. If the City Council does not take action to establish the tax limitation, City voters may submit a petition requiring the City Council to call an election to determine by majority vote whether to establish the tax limitation.

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person’s spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the City may not be increased while it remains the residence homestead of that person’s surviving spouse if the spouse is fifty-five years of age or older at the time of the person’s death. In addition, the Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the City. Once established, the City Council may not repeal or rescind the tax limitation.

The City cannot predict whether the constitutional amendment will be approved by the voters. The City Council has not determined at this time what action, if any, it will take should such amendment be approved by the voters. The City can make no representations or predictions concerning the impact such a tax limitation would have on the City's tax rate, financial condition or ability to make debt service payments.

Tax Increment Financing District

The City Council adopted an ordinance on November 3, 1998, establishing a tax increment financing district (the "TIF District") encompassing approximately 533 acres in the City's downtown area. The TIF District took effect on January 1, 1999 and will terminate on December 31, 2018. The City Council can terminate the TIF District at an earlier date by subsequent ordinance. The tax increment base will be the total net appraised value of all taxable property located in the reinvestment zone on January 1, 1998. The TIF District has a nine-member board of directors, five appointed by the City of Arlington and four members appointed by the other taxing jurisdictions. The board of directors shall prepare and adopt a project plan and reinvestment zone financing plan for the TIF District and submit such plans to the City for its approval. All eligible tax jurisdictions are participating for the full amount of their maintenance and operations portion of their respective tax rates. The tax increment payments for all participating jurisdiction for FY 2002 were $372,040.

Appraisal of Taxable Property

The Property Tax Code established a county-wide appraisal district in each county of the State. Each appraisal district assumed the responsibility of appraising all taxable property and preparing and certifying the tax rolls for each unit of government that levies ad valorem tax in that county. Under the 1981 amendment to the Property Tax Code, the City is now entitled to vote, in the proportion to its taxes levied in Tarrant County, in selecting the governing board of the appraisal district. A city, or other taxing unit, may challenge the appraisals assigned to property within its jurisdiction under certain limited circumstances. These entities can also sue the appraisal district to compel it to comply with the Property Tax Code.

The City's 2002 appraisal roll was prepared and certified by the Tarrant Appraisal District's Chief Appraiser and Appraisal Review Board. Such appraisal rolls are used by the City in establishing its tax rate. The City Council is responsible for setting the rate, levying and collecting the taxes. All taxable property in the City was valued on the City's tax roll at 100 percent of its estimated market value as of January 1, 2002. The rate of taxation was determined and set by the Council based upon the January 1, 2002 valuation. Taxes are due October 1 of the subject year and become delinquent after January 31 of the following year, except for a split payment option. Under the split payment option, adopted by the City beginning with the 2002 tax year, taxpayers can make one-half payment prior to December 1, and the final one-half payment prior to July 1 of the following year without penalty or interest. As of October 1, 2002 ad valorem taxes for the City are being collected by the Tarrant County Tax Assessor-Collector.

City's Rights in the Event of Tax Delinquencies

In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Tax Revenue

The following table shows the City's principal tax revenues by source for each of the last five fiscal years. Growth in total tax revenues has averaged 6.2 percent per year over the last five years.

Principal Tax Revenue by Source
Fiscal Years 1998 to 2002
(amounts in thousands)

Fiscal Year	General Fund Ad Valorem Taxes	General Sales Tax	Franchise Fees	Hotel Occupancy Tax	Other Taxes	Total
1998	$31,573	$37,573	$21,422	$4,519	$2,918	$ 98,005
1999	34,840	39,130	23,187	4,525	3,039	104,721
2000	36,522	43,384	26,639	4,590	3,247	114,382
2001	40,593	44,436	31,201	4,676	3,487	124,393
2002	46,026	41,173	29,635	4,118	3,649	124,601

Source: City Finance Department.

The following table sets forth the assessed value of all taxable property less exemptions in the City for each of its five most recent fiscal years. Tax-exempt properties owned by Federal and State governments, churches, and schools, totaling $1,816,527,603 for tax year 2002, are not included in the table. The Tarrant Appraisal District certified appraisal of taxable property less exemptions as of January 1, 2002, is $14,344,001,305. This value is obtained from the certified taxable value as of September of each year including minimum estimated value of property under protest.

Historical Taxable Assessed Value[1]
Tax Years 1998 to 2002

Tax Year	Real Property Taxable Assessed Value	Percentage Change From Prior Year	Personal Property Taxable Assessed Value	Percentage Change From Prior Year	Total Taxable Assessed Value [2]	Percentage Change From Prior Year
1998	$ 8,905,619,207	7.82%	$1,962,966,620	2.19%	$10,868,585,827	6.75%
1999	9,466,395,471	6.30	1,948,750,826	(0.72)	11,415,146,297	5.03
2000	10,344,385,656	9.27	2,090,767,102	7.29	12,435,152,758	8.94
2001	11,304,546,333	9.28	2,208,805,174	5.65	13,513,378,507	8.67
2002	12,099,808,133	7.03	2,244,193,172	1.60	14,344,001,305	6.15

(1) Real and personal property is assessed at 100 percent of fair market value. The Tarrant Appraisal District reappraises all property annually. Total taxable assessed value excludes abated value and exemptions.
(2) Taxable Assessed Valuation is the certified roll as of September of each year including minimum estimated value of property under protest.

Source: City Finance Department.

Tax Rate Distribution
Tax Years 1998 to 2002

	2002	2001	2000	1999	1998
General Fund	$.3620	$.3429	$.3276	$.3200	$.3200
Debt Service Fund	.2720	.2911	.3064	.3180	.3180
Total	$.6340	$.6340	$.6340	$.6380	$.6380

Source: City Finance Department.

Collection Ratios
Tax Years 1998 to 2002

Tax Year	Taxable Assessed Valuation[1]	Tax Rate	Tax Levy	% Collections[2] Current Year	Prior Years	Fiscal Year Ending
1998	$10,868,585,827	0.6380%	$69,341,578	98.95%	100.18%	9-30-99
1999	11,415,146,297	0.6380	72,828,633	98.48	100.48	9-30-00
2000	12,435,152,758	0.6340	78,838,868	98.56	100.82	9-30-01
2001	13,513,378,507	0.6340	85,674,820	98.30	99.92	9-30-02
2002	14,344,001,305	0.6340	90,940,968	96.88	98.19	9-30-03

(1) Taxable Assessed Valuation is the certified roll as of September of each year including minimum estimated value of property under protest.
(2) Prior years collections include current year collections, prior year delinquent collections and all penalty and interest collections. Tax Year 2002 collections are as of June 30, 2003.

Source: City Finance Department.

Analysis of Delinquent Taxes
as of September 30, 2002

Tax Year	Tax Levy	Uncollected	Percentage of Levy
2001	$85,674,820	$1,226,334	1.43%
2000	78,838,868	497,028	.63
1999	72,828,633	340,130	.47
1998	69,341,578	252,981	.36
1997	64,954,721	237,803	.37
1996	62,105,100	216,021	.35
1995	58,374,990	133,734	.23
1994	54,305,297	148,732	.27
1993	53,777,666	165,660	.31
1992	53,433,856	177,511	.33
1991	53,404,759	165,881	.42
Prior to 1991	N/A	628,172	N/A
		$4,189,987	

Source: City Finance Department.

Tax Base Distribution

	2002 Tax Year	2001 Tax Year	2000 Tax Year	1999 Tax Year	1998 Tax Year
Residential	59.5%	57.1%	56.6%	57.0%	56.0%
Commercial, Industrial, Retail	37.8	39.8	39.9	39.3	40.4
Undeveloped	2.7	3.1	3.5	3.7	3.6

Source: City Finance Department.

Top Ten Taxpayers

Name	Type of Business	Assessed Valuation 2002	2001	2000
General Motors[1] Corporation	Auto Assembly	$204,781,888	$216,054,181	$141,891,278
Oncor Electric Delivery Co.	Public Utility	151,139,100	147,999,596	136,355,384
Southwestern Bell Telephone Co.	Public Utility	101,792,723	92,386,330	92,600,768
Texas Flags/Six Flags Over Texas	Amusement Park	75,956,198	82,346,291	81,471,191
Parks at Arlington LP	Real Estate Holdings	75,736,199	67,609,232	66,931,868
National Semiconductor[1]	Computer Chip Mfg.	63,607,152	54,149,357	46,453,506
Don Davis	Auto Dealership & Real Estate Holdings	49,508,130	56,411,757	56,498,741
EQR - Limited Partnership	Real Estate Holdings	44,446,796	49,727,579	47,694,549
Chase Bank of Texas	Banking	43,987,200	42,082,813	-
TCI Public Utility	Public Utility	37,597,754	-	-
Dillard Department Stores	Retail Stores	-	34,885,799	36,488,411
Doskocil Manufacturing	Pet, Hunting & Fishing Products	-	-	31,416,286
Total		$848,553,140	$843,652,935	$737,801,982
Percentage of the above ten taxpayers of total tax rolls.		5.91%	6.24%	5.93%

[1] See Tax Data: Property Subject to Taxation and Assessed Value of Tax Abatement Agreements for 2002 abatement values.

Source: City Finance Department.

Tax Abatements

Assessed Value of Tax Abatement Agreements

Tax Year	**Total Assessed Valuation Abated**
1993	$ 82,097,282
1994	106,939,169
1995	132,913,633
1996	191,058,280
1997	257,260,096
1998	369,707,519
1999	377,017,981
2000	359,001,468
2001	561,859,024
2002	509,488,606

Source: City Finance Department.

Municipal Sales Tax

The City has adopted the provisions of Sections 321.101 and 321.103 of the Texas Tax Code, which grants the City the power to impose and levy a one percent sales tax for general purposes of the City. The collection of an additional one-half cent sales tax levied for the purpose of paying bonds issued in connection with the construction of The Ballpark in Arlington was terminated effective December 1, 2001, because such bonds have been paid in full. On September 14, 2002, an election to adopt an additional one-quarter cent city sales and use tax for municipal street maintenance as permitted under Chapter 327 of the Texas Tax Code was held and the additional one-quarter cent sales and use tax was approved. The additional one-quarter cent sales and use tax became effective on January 1, 2003. The Comptroller of Public Accounts of the State of Texas, after the deduction of a two percent service fee, currently remits monthly the City's portion of sales tax collections to the City. The statute provides the Comptroller must remit at least twice annually. Revenue from sales tax levied for general purposes of the City may not be pledged, under the applicable statutes, to the payment of debt service of the City's debt bonds.

Fiscal Year Ended	**Sales Tax Receipts**	**Tax Year**	**Ad Valorem Tax Levy**	**Sales Tax as a % of Ad Valorem Tax Levy**	**Population Estimate**	**Per Capita Sales Tax Collection**
9-30-98	$37,572,823	1997	$64,954,721	58%	293,991[(1)]	$127.80
9-30-99	39,130,327	1998	69,341,578	56	309,859	126.28
9-30-00	43,383,927	1999	72,828,633	60	332,969 [(2)]	130.29
9-30-01	44,436,164	2000	78,838,868	56	339,215	131.00
9-30-02	41,172,479	2001	85,674,820	48	346,197	118.93

(1) The method for estimating population was revised by the City Planning and Development Services Department in 2000.

(2) Actual 2000 Census population.

Source: City Finance Department.

Hotel Occupancy Tax Receipts

Under the provisions of Section 351.002 and 351.003 of the Texas Tax Code, the City is authorized to levy and collect a hotel occupancy tax not to exceed seven percent of the price paid for a room in a hotel in the City which costs $2 or more per day and is ordinarily used for sleeping to pay for or finance a variety of public improvements, including, specifically, convention center facilities. Section 351.103(b) of the Texas Tax Code states that the Hotel occupancy tax revenue allocated by the municipality cannot exceed is percent for the encouragement , promotions and application of the arts and cannot exceed is percent for historical preservation project or activities. The City has levied a Hotel occupancy tax of seven percent since 1983.

The Series 1993 Refunding Bonds and the Combination Tax and Revenue Certificates of Obligation, Series 1998 are payable in part from the Hotel occupancy tax. Set forth below are the revenues received by the City from the Hotel occupancy tax for the last five years.

Fiscal Year Ended	Hotel Occupancy Tax Receipts
9-30-98	$4,519,249
9-30-99	4,525,015
9-30-00	4,590,234
9-30-01	4,675,990
9-30-02	4,118,312

Source: City Finance Department.

PENSION FUND

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 758 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 7 percent, and the City matching percent is currently 200 percent, both as adopted by the City Council. Under the state law governing TMRS, the City contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2002, the City’s annual pension cost of $14,098,512 was equal to the City’s required and actual contributions. The required contribution was determined as part of the December 31, 2001, actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an (a) 8 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City’s unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

The following table discloses three-year historical trend information relating to the TMRS plan.

Fiscal Year Ending	**Annual Pension Cost (APC)**	**Percentage of APC Contribution**	**Net Pension Obligation**
9/30/00	$12,733,270	100%	-
9/30/01	12,884,047	100%	-
9/30/02	14,098,512	100%	-

The following table discloses certain three-year historical trend information presenting the City's progress in accumulating sufficient assets to pay benefits when due (amounts expressed in thousands, except for percentages):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Percent	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/99	$252,879	$312,412	$59,533	80.9%	$ 92,137	64.6%
12/31/00	267,933	333,403	65,469	80.4%	100,657	65.0%
12/31/01	290,670	363,021	72,351	80.1%	110,577	65.4%

Source: Comprehensive Annual Financial Report.

SELF INSURANCE

As of November 1, 1986, the City became fully self-insured for General, Auto, Public Officials, and Law Enforcement Liability coverages. The self-insurance plan provides for $1 million per occurrence coverage with a $3 million annual aggregate loss limit. In the absence of commercial liability insurance at reasonable cost, alternative measures for funding liability claims expense had to be developed. City officials created a fully funded self-insurance program by issuing taxable municipal bonds. An actuarial study performed by the Wyatt Company, Dallas, Texas, determined that the City of Arlington would need $9.9 million to cover statistically predictable liability losses incurred between November 1, 1986, and November 1, 1996. Bonds were issued in the principal amount of $9,000,000 and the City contributed $1,000,000 from its General Fund. In May 1992, $5,000,000 principal amount of the Risk Management Notes (the "Notes") were paid, leaving $4,000,000 principal amount outstanding. On August 28, 1996 the City of Arlington Property Finance Authority passed a resolution calling the Notes for early redemption on November 1, 1996. The Notes were redeemed at par on November 1, 1996.

On January 12, 1999, the City issued $7,000,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 1999. The proceeds of this issue have been used to recapitalize the City's self-insurance program. An actuarial study estimated that the $7,000,000 of proceeds would adequately fund the self-insurance program through September 30, 2004.

On September 11, 2001, Ordinance 01-109 was passed by the Mayor and City Council, which extended the City's self-insurance and risk management program through September 30, 2005.

As of September 30, 2002, the total current assets less total current liabilities were $7,507,000. The non-current claims liability at September 30, 2002 was $847,000. Claims occurring prior to November 1, 1986 are covered under the City's previous commercial insurance program. Property, Fidelity and Crime coverages remain commercially insured.

EXECUTION

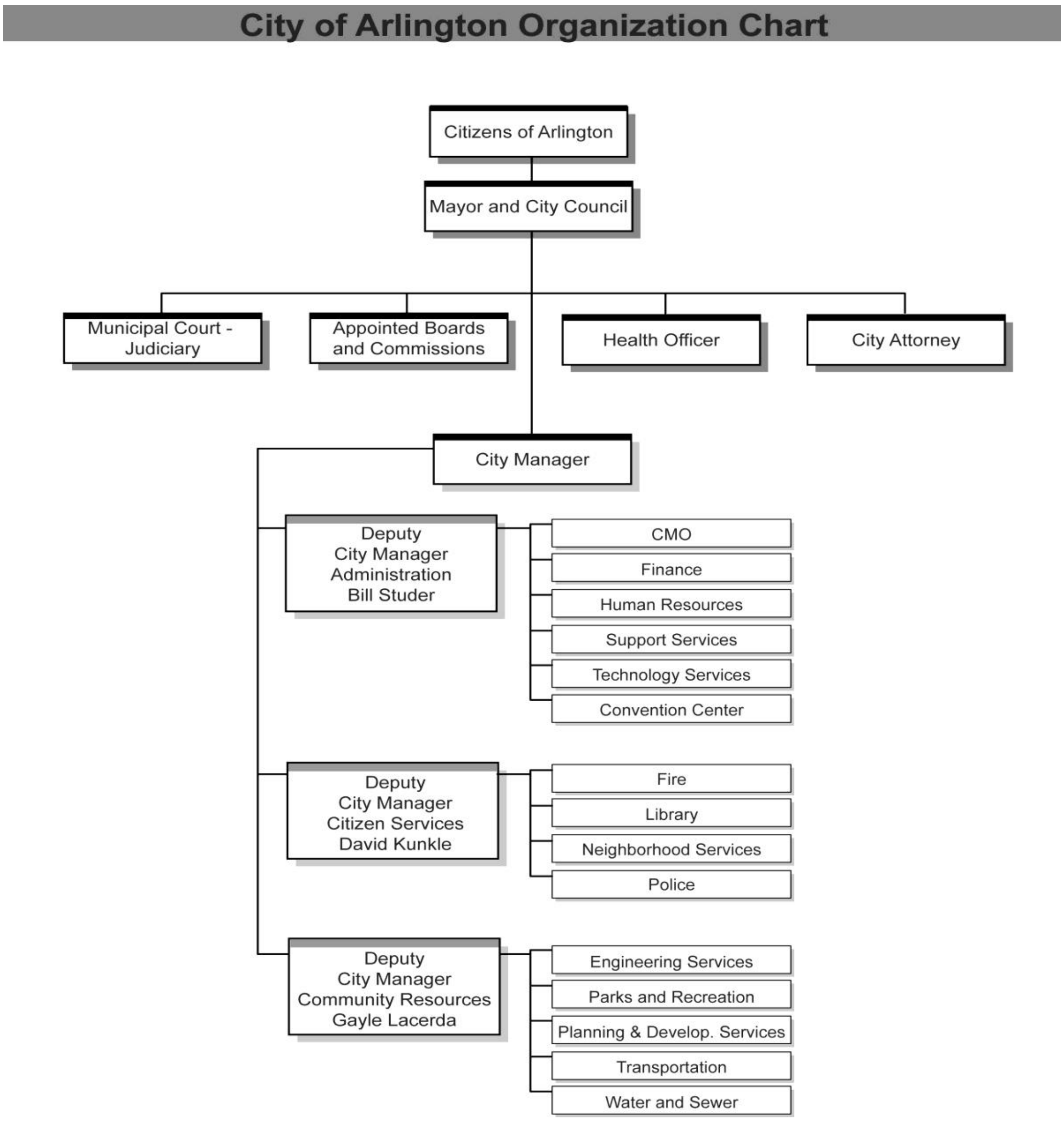
This Official Statement was approved and the execution and delivery of this Official Statement authorized by the City of Arlington, Texas on July 29, 2003.

\s\ Robert N. Cluck
Mayor, City of Arlington, Texas

ATTEST:

\s\ Barbara G. Heptig
City Secretary
City of Arlington, Texas

APPENDIX A


City of Arlington Organization Chart
Citizens of Arlington
Mayor and City Council
Municipal Court - Judiciary
Appointed Boards and Commissions
Health Officer
City Attorney
City Manager
Deputy City Manager Administration Bill Studer
CMO
Finance
Human Resources
Support Services
Technology Services
Convention Center
Deputy City Manager Citizen Services David Kunkle
Fire
Library
Neighborhood Services
Police
Deputy City Manager Community Resources Gayle Lacerda
Engineering Services
Parks and Recreation
Planning & Develop. Services
Transportation
Water and Sewer

APPENDIX B

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
OF THE CITY OF ARLINGTON
FISCAL YEAR 2001-02

Copies of the complete City of Arlington Comprehensive Annual Financial Report Year Ended September 30, 2002 may be obtained from the City's Treasury Manager.

CITY OF ARLINGTON, TEXAS

GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2002

TABLE OF CONTENTS

717 North Harwood Street
Suite 3100
Dallas, TX 75201-6585

Independent Auditors' Report

Honorable Mayor, City Council, City Manager,
City of Arlington, Texas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, Texas (the City), as of and for the year ended September 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements of the Arlington Housing Authority, and the Arlington Convention and Visitors Bureau, Inc. which reflect total assets of $4,338,000 and $361,000, respectively as of September 30, 2002 and total revenues of $22,403,000 and $3,160,000 respectively, for the year then ended, which represent 1.84% and .15%, and 71.15% and 10.04%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arlington Housing Authority, and the Arlington Convention and Visitors Bureau, Inc. is based on the report of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the City implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*: *Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6 of the GASB, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statement,* effective October 1, 2001.

The management's discussion and analysis on pages 3 to 12, the budgetary comparison schedule on page 54, and the schedule of funding progress on pages 56 and 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued a report dated February 21, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

February 21, 2003

CITY OF ARLINGTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2002

The discussion and analysis of the City of Arlington's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2002. It should be read in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts in this discussion, unless otherwise indicated, are expressed in millions of dollars. This discussion and analysis does not include comparative data for prior years, as this information is not available for the first year of implementation of Governmental Accounting Standards Board (GASB) Statement Number 34. Future years will include, when available, comparative analysis of government-wide data.

FINANCIAL HIGHLIGHTS

- The assets of the City of Arlington exceeded its liabilities at the close of the fiscal year ending September 30, 2002 by $763.3 million (net assets). Of this amount, $100.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City of Arlington's total net assets increased by $25.0 million for the year ended September 30, 2002. The increase in net assets can be attributed to increases in ad valorem tax revenue, and court fines and forfeitures revenue.

- As of September 30, 2002, the City of Arlington's governmental funds reported combined ending fund balances of $89.2 million, a decrease of $6.2 million in comparison with the prior fiscal year.

- While the total General Fund balance declined $1.0 million for the fiscal year ended September 30, 2002, the Fund Balance designated for Working Capital Reserve increased $0.8 million during the same period.

- The City's total debt increased by $0.7 million during the current fiscal year. The City issued $23.8 million in Permanent Improvement Bonds, $1.1 million in Combination Tax and Revenue Certificates of Obligation, and $15.0 million in Waterworks and Sewer System Revenue Bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Arlington's basic financial statements. The City of Arlington's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Arlington's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City of Arlington's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Arlington is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- Governmental Activities **–** Most of the City's basic services are reported here, including the police, fire, libraries, planning and development, transportation, parks and recreation, and general administration. Property taxes, sales taxes and franchise fees finance most of these activities.

- Business-type Activities - The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and sanitary landfill system are reported here.

- Component Units – The City includes five separate legal entities in its report – Arlington Sports Facilities Development Authority, Inc., Arlington Housing Authority, Arlington Convention and Visitors Bureau, Arlington Housing Finance Corporation and Arlington Industrial Corporation. Although legally separate, these component units are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds - governmental and proprietary – utilize different accounting approaches.

- Governmental funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements.

  The City of Arlington maintains twenty-three individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund and the Street Capital Projects Fund, all of which are considered to be major funds. Data from the other twenty governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

- Proprietary funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. The internal service funds (the other component of proprietary funds) are utilized to report activities that provide supplies and services for the City's other programs and activities, such as the City's general services, the City's self insurance funds and fleet maintenance functions. Because these services benefit both governmental as well as business-type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

The City of Arlington maintains two individual enterprise funds. The City uses enterprise funds to account for its water and sewer and sanitary landfill. The funds provide the same type of information as the government-wide financial statements, only in more detail and include some of the internal service fund type activity. The proprietary fund financial statements provide separate information for the water and sewer and sanitary landfill, both of which are considered to be major funds of the City.

The City as Trustee

Reporting the City's Fiduciary Responsibilities

The City is the trustee, or fiduciary, for its Part-Time Deferred Income Trust, Thrift Savings Plan and Disability Income Plan, as well as certain amounts held on behalf of developers, property owners and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities of these funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees and budgetary comparative information for the general fund.

THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net assets were $763 million as of September 30, 2002. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business- type activities net assets are $375 million. This analysis focuses on the net assets (table 1) and changes in general revenues (table 2) and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net assets (86.5 percent) reflects its investment in capital assets (e.g., land buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Summary of Net Assets
At September 30, 2002
(Amounts Expressed in Millions)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	$ 125	$ 108	$ 233
Capital assets	613	387	1,000
Total assets	738	495	1,233
Long-term liabilities outstanding	296	98	394
Other liabilities	54	22	76
Total liabilities	350	120	470
Net assets:			
Invested in capital assets, net of related debt	357	308	665
Restricted	2		2
Unrestricted	29	67	96
Total net assets	$ 388	$ 375	$ 763

Governmental Activities

The City's general revenues decreased when compared to the prior year by 0.8 percent or $1.3 million. The primary reason for this decrease was due to a $3.1 million decrease in interest income as a result of lower interest rates on investments. Utility franchise fees also decreased $1.5 million primarily because of lower revenue from TU for electric and gas. Overall tax revenue increased $3.4 million. Property tax revenue increased due to increased property valuations and the addition of new property throughout the City. The assessed value of the property in the City increased by $1.1 billion or 8.7 percent as compared to the prior year while the City property tax rate of $0.634 per $100 assessed valuation remained unchanged. The increase in property tax revenue offset the decrease in sales tax revenue. Sales tax revenue declined $3.3 million or 7.8 percent over the previous year due to local and national economic declines.

Table 2
General Revenues
(Amounts Expressed In Thousands)

	2002	2001	Increase (Decrease)
Taxes	$ 134,489	$ 131,126	$ 3,363
Utility franchise fees	29,667	31,201	(1,534)
Interest Income	3,888	6,058	(2,170)
Total general revenues	$ 168,044	$ 168,385	$ (341)

Governmental and Business-type activities increased the City's net assets by $25.0 million. The key elements of this increase are as follows:

Table 3
Changes in Net Assets
(Amounts Expressed in Thousands)

	Governmental Activities 2002	Business- type Activities 2002	Total 2002
Revenues:			
Program Revenues:			
Charges for services	$ 39,480	$ 88,644	$ 128,124
Operating grants and contributions	9,430	-	9,430
Capital grants and contributions	12,509	6,636	19,145
General revenues:			
Taxes	134,489	-	134,489
Utility franchise fees	29,667	-	29,667
Other	7,093	2,143	9,236
Total Revenues	232,668	97,423	330,091
Expenses:			
General government	34,330	-	34,330
Public safety	90,417	-	90,417
Public works	55,327	-	55,327
Public health	2,100	-	2,100
Parks and recreation	20,669	-	20,669
Public welfare	5,288	-	5,288
Convention and event services	5,426	-	5,426
Interest and fiscal charges	15,674	-	15,674
Water and sewer	-	68,106	68,106
Landfill	-	7,743	7,743
Total expenses	229,231	75,849	305,080
Increase in net assets before transfers	3,437	21,574	25,011
Transfers	4,705	(4,705)	-
Increase in net assets	8,142	16,869	25,011
Net Assets, October 1	380,069	358,201	738,270
Net Assets, September 30	$ 388,211	$ 375,070	$ 763,281

The most significant governmental expense for the City was in providing for public safety, which incurred expenses of $90.4 million. These expenses were offset by revenues collected from a variety of sources, with the largest being from fines and forfeitures, which are $6.8 million for the fiscal year ending September 30, 2002. The major components of public safety are police and fire. Police accounted for $55.3 million in public safety expense of which $47 million was incurred for salary and benefits. Fire accounted for $29.7 million in public safety expense, of which $25.1 was incurred for salary and benefits. Other significant governmental expenses for the City include public works at $55.3 million of which $17.2 million represented salary and benefits and $29 million represented depreciation.

Business-type Activities

Revenues of the City's business-type activities were $97.4 million for the fiscal year ending September 30, 2002. Expenses for the City's business-type activities were $75.8 million for the year, resulting in net revenues of $21.6 million. The net revenues are the result of several factors, including the following:

- The City's water and sewer system recorded charges for services of $80.7 million and a non-cash revenue source of $6.6 million of capital contributions that represent developer contributions. Developer contributions represent subdivision infrastructure, which upon completion, is contributed to the resources of the City. Excluding developer contributions of $6.6 million, the water and sewer system charges for services of $80.7 million exceeded expenses of $68.1 million by $12.6 million. The most significant expenses of the water and sewer fund were $13 million to purchase water, $16.1 million for the purchase of sewage treatment and $12.4 million in salaries and benefits.

- The City landfill activity recorded charges for services of $7.8 million and expenses of $7.6 million resulting in net revenue of $0.2 million. The most significant components of landfill expense were salary and benefits of $1.3 million and closure/post closure costs of $1.8 million. Closure/post closure costs are costs that are incurred to provide for the protection of the environment after the landfill stops accepting waste. The City recognizes a portion of these costs each year over the useful life of the landfill.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2002, the City had $1.0 billion invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of $34.3 million or 4 percent over the prior fiscal year.

Table 4
Capital Assets and Year-end
(Net of Depreciation In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Land	$ 68,373	$ 63,120	$ 9,446	$ 9,446	$ 77,819	$ 72,566
Buildings and improvements	99,970	91,488	4,718	2,898	104,688	94,386
Equipment	15,000	16,521	1,216	1,485	16,216	18,006
Construction in progress	110,408	105,402	61,456	78,456	171,864	183,858
Infrastructure	319,593	320,481	-	-	319,593	320,481
Water and sewer system	-	-	310,036	276,570	310,036	276,570
Totals	$ 613,344	$ 597,012	$ 386,872	$ 368,855	$ 1,000,216	$ 965,867

This year's major additions included (in millions)

Replacement of street pavement	$ 2.3
Airport runway expansion	3.3
Drainage improvements	2.9
Randol Mill pool renovations	3.0
Arlington Tennis Center court resurfacing	1.0
Street widening of Silo Road from Lynn Creek to Mansfield Webb	3.3
Street widening of Cooper Street for IH30 to Cedar	1.3
Street widening of Sublett from Tennessee Trail to New York	3.3
Street widening of Sublett from US 287 to PolyWeb Road	1.9
Street widening of Matlock fro Lynn Creek to Harris	3.3
Water billing system	2.3
Water treatment expansion	3.1
Total	$ 31.0

The City's fiscal year preliminary 2003 capital budget calls for it to spend $27 million for capital projects, principally in four major categories: street improvements, libraries, parks and recreation, and transportation. The estimated expenditures for street improvements are $14.6 million and include $4.4 million for Pleasant Ridge Road, $2.0 million for Green Oaks Blvd., $1.2 million for Kelly Elliott and $1.0 million for Center/Mesquite. Library's estimated expenditures are $1.3 million, including $0.7 million for the South West Sector Branch construction and $0.3 million for the Central Library renovation. The estimated expenditures for parks and recreation of $3.6 million include $0.8 million for J.W. Dunlop Park, $0.5 million for Rush/Sublett Creak Linear Park, $0.4 million for Harold Patterson renovation and $0.3 million for playground renovations. Transportation's estimated expenditures of $1.6 million include $0.6 million of arterial streetlight construction, $0.5 million in streetlight rehabilitation and $0.3 million in new traffic signals. The 2003 Capital Budget is not adopted and individual projects are subject to change.

Debt

At year-end, the City had $394.2 million in General Obligation Bonds and Combination Tax and Revenue Certificates of Obligations outstanding as compared to $393.5 million at the end of the prior fiscal year, an increase of 0.2 percent as shown in table 5.

Table 5
Outstanding Debt
(Amounts Expressed In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
General obligation bonds (backed by the City)	$ 256,795	$ 256,425	$ -	$ -	$ 256,795	$ 256,425
Combination tax and revenue certificates of obligation (backed by the City)	42,855	46,165	-	-	42,855	46,165
Revenue bonds (backed by fee revenues)	-	-	94,575	90,955	94,575	90,955
Totals	$ 299,650	$ 302,590	$ 94,575	$ 90,955	$ 394,225	$ 393,545

During the current fiscal year the City issued debt in April 2002 and again in August of 2002. The new debt resulted primarily from the issuance of general obligation bonds during the current fiscal year in the amount of $23.8 million for a variety of new projects. Those projects included street enhancements and parks and recreation projects. Additionally, the City issued $15 million in water and wastewater system revenue bonds.

The City has maintained its AA rating from Standard and Poor's Corporation, its AA rating from Fitch, Inc. and is Aa2 rating from Moody's Investor Services on its tax supported debt. The City also has a AA- rating from Standard and Poor's Corporation, a Aa3 rating from Moody's Investor Service and a AA+ from Fitch, Inc. on its outstanding water and wastewater revenue bonds. The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to $2.50 per $100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net tax-supported debt to assessed value of all taxable property is 2.2 percent.

The City maintains a self-insurance program for bodily injury, property damage, personal injury, advertising injury, regulatory injury and worker's compensation. Claims for worker's compensation over $300,000 per occurrence are covered by a private insurance company. Claim liabilities are actuarially determined and take into consideration claim experience, adjustment expenses, economic, and other factors. Claim liability was $8.9 million at September 30, 2002 compared to $9.6 million at September 30, 2001.

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2002, the governmental funds of the City reported a combined fund balance of $89.2 million. This ending balance includes a reduction in fund balance of $1.0 million in the City's General Fund. The primary reason for the General Fund's reduction is the lower than anticipated sales tax revenues throughout the fiscal year as mentioned elsewhere within this discussion. Management implemented cost containment measures to mitigate the effect on the General Fund's ending fund balance. In addition, due to declining revenues from hotel occupancy taxes, $0.4 million was transferred from the General Fund to assist the Convention and Events Service Fund. In addition, these other changes in fund balances should be noted:

- The City's Debt Service fund balance of $1.7 million was unchanged from prior year fund balance.

- The City spent $22.3 million in capital outlay in the Street Capital Projects Fund, up $7.8 million as compared to the same period in the prior year.

- The City's water and sewer fund net assets of $342.5 million increased by $18.1 million over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding operating expenses by $14.8 million.

- The City's sanitary landfill fund net assets were $33 million and decreased by $0.8 million as compared to the prior fiscal year. This decrease was due primarily to an increase in closure/post closure costs.

General Fund Budgetary Highlights

During FY 2001-02, there were no budget amendments for the General Fund.

For FY 2001-02, actual expenditures on a budgetary basis were $158.4 million compared to the budget amount of $161.9 million. The $3.5 million positive variance was due to savings achieved through a series of expenditure restrictions imposed by the City Manager's Office during the year, including a hiring freeze on all vacancies, the elimination of out-of-town travel, a freeze on capital expenditures, and two phases of staffing reductions.

For FY 2001-02, actual revenues on a budgetary basis were $154.3 million as compared to the budget amount of $158.5 million. The majority of the $4.2 million negative variance was due to a decline in sales tax revenue and franchise fees.

The City of Arlington has an actual on a budgetary basis General Fund balance of $20.8 million as of the fiscal year end, compared to the budgeted fund balance of $19.6 million. The variance in fund balance is primarily due to cost containment measures implemented by management.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2003 budget, tax rates, and fees that will be charged for the business-type activities. One of these factors is the economy. The National recession has had significant impact on City revenues. For the first time in the City's history, sales tax, Arlington's second largest revenue source, has declined by several million dollars. At the same time, the City's population is growing and the demand for City services is increasing. Additionally, the total growth of commercial development has not kept pace with population growth. In addition to the problems associated with the recession, some of the City's commercial developments are aging and tenants are choosing to relocate to newer facilities in other communities. These indicators were taken into account when adopting the General Fund budget for fiscal year 2003. The total 2002-03 combined budget appropriation is $156.0 million. This represents a slight increase of $0.5 million or 0.3 percent over the 2001-02 budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2003 is $0.6340 per $100 valuation. Of this tax rate, 57 percent or $0.3620 is utilized for General Fund activities. The remaining 43 percent or $0.2720 is used for debt service. The General Fund's portion of property tax revenue for FY 2003 is estimated to be $51.4 million. The City's portion of the sales tax rate is 1 percent. Sales tax revenue for FY 2003 is budgeted at $41.6 million. This is unchanged from the FY 2002.

The largest revenue source for the water and sewer fund is water sales, at $50.6 million. The rate for FY 2003 is $2.10 per 1,000 gallons, and incorporates the cost of raw water treatment, distribution and maintenance costs. This rate is unchanged from last year. The second largest revenue source for the water and sewer fund is sewer charges, at $32.5 million based on a FY 2003 rate of $2.40 per 1,000 gallons. This rate is also unchanged from the previous fiscal year.

The sanitary landfill fund's largest revenue source is the service charge paid by Arlington Disposal Company to dispose of solid waste at the City's landfill, at $5.0 million. The rate is $18 per ton and remains unchanged from the previous fiscal year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of Arlington, 201 E. Abram St., Suite 800, Arlington, TX 76010.

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 93,440	$ 35,670	$ 129,110	$ 3,373
Investments	3,428	-	3,428	7,029
Receivables				
Taxes	4,361	-	4,361	-
Sales taxes	7,210	-	7,210	-
Grants	-	-	-	132
Leases	-	-	-	43,635
Trade accounts	96	6,704	6,800	-
Franchise fees	7,053	-	7,053	-
Unbilled trade accounts	-	5,456	5,456	-
Special assessments	528	-	528	-
Accrued interest	828	-	828	19
Settlement agreement	-	-	-	11,479
Other	5,178	803	5,981	9
Internal balances	403	(403)	-	-
Due from component units	86	-	86	-
Due from other governments	1,739	-	1,739	-
Deferred charge - issuance costs	50	-	50	-
Inventory of supplies, at cost	508	8,170	8,678	7
Prepaid expenses	51	-	51	21
Restricted assets-				
Bond contingency-				
Investments	-	12,155	12,155	-
Accrued interest receivable	-	127	127	-
Capital construction-				
Investments	-	35,291	35,291	-
Assessments receivable	-	4	4	-
Meter deposits-				
Investments	-	3,522	3,522	-
Capital Assets-				
Land	68,373	9,446	77,819	43,515
Buildings and improvements	138,577	16,435	155,012	157,625
Water and sewer system	-	433,787	433,787	-
Machinery and equipment	36,779	12,844	49,623	1,550
Infrastructure	678,396	-	678,396	-
Accumulated depreciation	(419,189)	(147,096)	(566,285)	(32,153)
Construction in progress	110,408	61,456	171,864	-
Total Assets	$ 738,303	$ 494,371	$ 1,232,674	$ 236,241

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2002
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES				
Accounts payable and accrued liabilities	$ 7,347	$ 3,932	$ 11,279	$ 1,026
Arbitrage rebate	824	-	824	-
Retainage payable	1,611	-	1,611	10
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	1,283	1,283	-
Retainage payable	-	471	471	-
Accrued interest	1,978	1,740	3,718	-
Revenue bonds payable, current	-	3,855	3,855	-
Meter deposits	-	3,522	3,522	-
Due to primary government	-	-	-	86
Due to other governments	1,250	-	1,250	-
Deferred revenue-				
Taxes	50	-	50	-
Other	6,492	-	6,492	43,641
Non-current liabilities				
Due within one year:				
Estimated claims payable	5,522	-	5,522	-
Sales tax payable	112	-	112	55
General obligation debt	27,420	-	27,420	-
Accrued compensated balances	1,192	57	1,249	-
Capital lease obligation	123	-	123	-
Revenue bonds, net of discount, payable from unrestricted assets	-	7,502	7,502	-
Due in more than one year:				
Estimated claims payable	3,392	-	3,392	-
Sales tax payable	1,379	-	1,379	682
Bonds payable	-	-	-	17,109
General obligation debt	272,230	-	272,230	-
Landfill closure accrued liabilities	-	12,049	12,049	-
Accrued compensated balances	19,170	1,672	20,842	-
Revenue bonds, net of discount, payable from unrestricted assets	-	83,218	83,218	-
Total Liabilities	350,092	119,301	469,393	62,609
NET ASSETS				
Invested in capital assets, net of related debt	357,316	307,741	665,057	153,428
Restricted for debt service	2,259	-	2,259	1,455
Unrestricted	28,636	67,329	95,965	18,749
Total Net Assets	$ 388,211	$ 375,070	$ 763,281	$ 173,632

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General government	$ 34,330	$ 9,121	$ -	$ 25
Public safety	90,417	7,966	2,131	90
Public works	55,327	8,341	1,394	8,234
Public health	2,100	227	8	-
Parks and recreation	20,669	8,190	-	4,123
Public welfare	5,288	-	5,897	37
Convention and event services	5,426	5,635	-	-
Interest and fiscal charges	15,674	-	-	-
Total Governmental Activities	229,231	39,480	9,430	12,509
Business-Type Activities:				
Water and sewer	68,106	80,747	-	6,636
Landfill	7,743	7,897	-	-
Total Business-Type Activities	75,849	88,644	-	6,636
Total Primary Government	$ 305,080	$ 128,124	$ 9,430	$ 19,145
Component Units:				
Arlington Sports Facilities Development Authority, Inc.	$ 16,765	$ 2,213	$ -	$ -
Arlington Housing Authority	22,245	-	22,248	47
Arlington Convention and Visitors Bureau	3,303	2,506	645	-
Arlington Housing Finance Authority	1	46	-	-
Arlington Industrial Development Corporation	-	-	-	-
Total Component Units	$ 42,314	$ 4,765	$ 22,893	$ 47

General Revenues:
Taxes
Utility franchise fees
Interest
Net increase (decrease) in fair value of investments
Transfers
Other
Total general revenues
Change in net assets
Net assets - beginning
Net assets - ending

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (25,184)	$ -	$ (25,184)	$ -
(80,230)	-	(80,230)	-
(37,358)	-	(37,358)	-
(1,865)	-	(1,865)	-
(8,356)	-	(8,356)	-
646	-	646	-
209	-	209	-
(15,674)	-	(15,674)	-
(167,812)	-	(167,812)	-
-	19,277	19,277	-
-	154	154	-
	19,431	19,431	-
$ (167,812)	$ 19,431	$ (148,381)	$ -
$ -	$ -	$ -	(14,552)
-	-	-	50
-	-	-	(152)
	-	-	45
-	-	-	-
$ -	$ -	$ -	$ (14,609)
134,489	-	134,489	3,432
29,667	-	29,667	-
3,888	2,394	6,282	278
(380)	(251)	(631)	67
4,705	(4,705)	-	-
3,585	-	3,585	5
175,954	(2,562)	173,392	3,782
8,142	16,869	25,011	(10,827)
380,069	358,201	738,270	184,459
$ 388,211	$ 375,070	$ 763,281	$ 173,632

CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 5,871	$ 1,829	$ 32,765	$ 41,743	$ 82,208
Investments	-	2	-	-	2
Receivables (net of allowance for uncollectibles)					
Taxes	3,126	-	-	1,235	4,361
Sales taxes	7,210	-	-	-	7,210
Franchise fees	7,053	-	-	-	7,053
Special assessments	-	-	528	-	528
Accrued interest	790	-	-	-	790
Other	2,290	-	-	2,888	5,178
Due from other funds	1,817	-	-	-	1,817
Due from component units	86	-	-	-	86
Due from other governments	-	-	-	1,739	1,739
Inventory of supplies, at cost	279	-	-	-	279
Prepaid expenditures	48	-	-	3	51
Total Assets	$ 28,570	$ 1,831	$ 33,293	$ 47,608	$ 111,302
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 3,749	$ 84	$ 622	$ 2,369	$ 6,824
Retainage payable	40	-	988	583	1,611
Due to other funds	-	-	-	1,817	1,817
Due to other governments	-	-	-	1,250	1,250
Deferred revenue-					
Taxes	3,032	-	-	-	3,032
Other	1,042	-	838	5,654	7,534
Total Liabilities	7,863	84	2,448	11,673	22,068
Fund Balances:					
Reserved for encumbrances	1,526	-	12,739	9,376	23,641
Reserved for debt service	-	1,747	-	512	2,259
Reserved for inventory	279	-	-	-	279
Reserved for prepaids	48	-	-	3	51
Reserved for capital maintenance	-	-	-	468	468
Reserved for capital projects	-	-	18,106	22,481	40,587
Reserved for street maintenance	-	-	-	379	379
Reserved for capital outlay	-	-	-	229	229
Reserved for utility rate case	500	-	-	-	500
Unreserved-					
General fund					
Designated for telecommunications	754	-	-	-	754
Designated for working capital	12,195	-	-	-	12,195
Designated for subsequent years' expenditures	3,429	-	-	-	3,429
Designated for arbitrage	824	-	-	-	824
Designated for compensated absenses	1,152	-	-	-	1,152
Special revenue funds	-	-	-	2,487	2,487
Total Fund Balances	20,707	1,747	30,845	35,935	89,234
Total Liabilities and Fund Balances	$ 28,570	$ 1,831	$ 33,293	$ 47,608	$ 111,302

CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance per balance sheet	$	89,234
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		601,533
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		4,024
Internal service funds are used by management to charge the cost of fleet services, general services, APFA, technology services, workers' comp. and group health to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		17,238
Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.		(323,818)
Net assets of governmental activities	$	388,211

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	$ 90,848	$ 39,091	$ -	$ 4,490	$ 134,429
Licenses and permits	3,837	-	-	-	3,837
Utility franchise fees	29,635	-	-	-	29,635
Fines and forfeitures	6,787	-	-	-	6,787
Leases, rents and concessions	3,548	-	-	-	3,548
Service charges	5,648	-	-	18,831	24,479
Interest revenue	824	978	759	1,021	3,582
Net increase (decrease) in fair value of investments	(21)	-	(103)	(127)	(251)
Contributions	-	-	3,452	626	4,078
Intergovernmental revenues	-	-	-	17,229	17,229
Other	1,350	131	2	1,755	3,238
Total Revenues	142,456	40,200	4,110	43,825	230,591
EXPENDITURES					
Current-					
General government	27,431	-	-	962	28,393
Public safety	85,017	-	-	6,589	91,606
Public works	17,826	-	22,347	19,583	59,756
Public health	1,931	-	-	68	1,999
Parks and recreation	12,111	-	-	17,870	29,981
Public welfare	-	-	-	6,311	6,311
Convention and event services	-	-	-	5,426	5,426
Debt service-					
Principal retirement	-	27,860	-	-	27,860
Interest and fiscal charges	-	15,663	-	-	15,663
Total Expenditures	144,316	43,523	22,347	56,809	266,995
Excess (deficiency) of revenues over (under) expenditures	(1,860)	(3,323)	(18,237)	(12,984)	(36,404)
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds	-	-	18,350	6,570	24,920
Transfers in	5,332	3,330	-	5,817	14,479
Transfers out	(4,426)	-	(100)	(4,705)	(9,231)
Total Other Financing Sources and Uses	906	3,330	18,250	7,682	30,168
Net Change in Fund Balances	(954)	7	13	(5,302)	(6,236)
Fund Balances, October 1, As Restated	21,661	1,740	30,832	41,237	95,470
Fund balances, September 30	$ 20,707	$ 1,747	$ 30,845	$ 35,935	$ 89,234

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

CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	$	(6,236)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		16,994
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,574
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		2,993
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.		(5,100)
Internal service funds are used by management to charge the costs of fleet management and management information systems, property liability loss, health claims and offices services to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities		(2,083)
Change in net assets of governmental activities	$	8,142

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	**Sanitary Landfill**	**Total**	**Governmental Activities- Internal Service Funds**
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 6,748	$ 28,922	$ 35,670	$ 11,232
Investments	-	-	-	3,426
Restricted Assets				
Bond contingency-				
Investments	7,806	-	7,806	-
Accrued Interest	127	-	127	-
Capital construction investments	31,236	-	31,236	-
Meter deposit investments	3,522	-	3,522	-
Receivables (net of allowances for uncollectables):				
Trade accounts	6,704	-	6,704	96
Accrued interest	-	-	-	38
Unbilled trade accounts	5,456	-	5,456	-
Other	340	463	803	-
Inventory of supplies, at cost	406	7,764	8,170	229
Total Current Assets	62,345	37,149	99,494	15,021
Non-Current Assets:				
Restricted Assets:				
Bond contingency-investments	4,349	-	4,349	-
Capital construction-				
Investments	4,055	-	4,055	-
Assessments receivable	4	-	4	-
Total Restricted Assets	8,408	-	8,408	-
Capital Assets:				
Land	4,828	4,618	9,446	-
Buildings and improvements	2,833	13,602	16,435	467
Water and sewer system	433,787	-	433,787	-
Machinery and equipment	9,551	3,293	12,844	28,607
Accumulated depreciation	(133,239)	(13,857)	(147,096)	(17,263)
Construction-in-progress	60,987	469	61,456	-
Total Capital Assets Net of Accumulated Depreciation	378,747	8,125	386,872	11,811
Total Noncurrent Assets	387,155	8,125	395,280	11,811
Total Assets	$ 449,500	$ 45,274	$ 494,774	$ 26,832

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2002
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	**Sanitary Landfill**	**Total**	**Governmental Activities-Internal Service Funds**
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 3,766	$ 166	$ 3,932	$ 523
Accrued compensated absences- Current	55	2	57	14
Revenue bonds, net of discount, payable from unrestricted assets- Current	7,502	-	7,502	-
Capital lease obligation- Current	-	-	-	123
Total Current Liabilities	11,323	168	11,491	660
Current Liabilities Payable From Restricted Assets:				
Accounts payable and accrued Liabilities	1,283	-	1,283	-
Retainage	471	-	471	-
Accrued interest	1,740	-	1,740	-
Estimated claims payable- current	-	-	-	5,522
Revenue bonds payable, current	3,855	-	3,855	-
Meter deposits	3,522	-	3,522	-
Total Current Liabilities Payable From Restricted Assets	10,871	-	10,871	5,522
Noncurrent Liabilities:				
Estimated claims payable	-	-	-	3,392
Compensated absences	1,575	97	1,672	423
Landfill closure accrued liabilities	-	12,049	12,049	-
Revenue bonds, net of discount payable from unrestricted assets	83,218	-	83,218	-
Total Noncurrent Liabilities	84,793	12,146	96,939	3,815
Total Liabilities	106,987	12,314	119,301	9,997
NET ASSETS				
Invested in capital assets, net of related debt	299,616	8,125	307,741	11,811
Unrestricted	42,897	24,835	67,732	5,024
Total Net Assets	$ 342,513	$ 32,960	375,473	$ 16,835
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			(403)	
Net assets of business-type activities			$ 375,070	

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	**Sanitary Landfill**	**Total**	**Governmental Activities-Internal Service Funds**
Operating Revenues:				
Water sales	$ 45,855	$ -	$ 45,855	$ -
Sewer service	29,733	-	29,733	-
Landfill user charges	-	7,840	7,840	-
Service charges	-	-	-	26,081
Sundry	5,159	57	5,216	-
Total Operating Revenues	80,747	7,897	88,644	26,081
Operating Expenses:				
Purchase of water	13,059	-	13,059	-
Purchase of sewage treatment	16,091	-	16,091	-
Salaries and wages	10,998	1,149	12,147	2,426
Employees' retirement	1,368	124	1,492	309
Supplies	1,898	117	2,015	3,179
Maintenance and repairs	2,361	389	2,750	1,575
Utilities	1,392	56	1,448	161
Claims	-	-	-	15,875
Group health residual premium	-	-	-	1,343
Group health pooling premium	-	-	-	279
Legal	-	-	-	116
Franchise fees	3,813	-	3,813	-
Payment-in-lieu-of taxes	2,217	42	2,259	-
Depreciation	8,484	1,170	9,654	2,804
Closure/post-closure expense	-	1,846	1,846	-
Miscellaneous services	4,285	2,731	7,016	575
Total Operating Expenses	65,966	7,624	73,590	28,642
Operating Income	14,781	273	15,054	(2,561)
Nonoperating Revenues (Expenses):				
Interest revenue	1,590	804	2,394	449
Net increase (decrease) in the fair value of investments	(171)	(80)	(251)	(129)
Gain on sale of assets	-	-	-	309
Interest expense and fiscal charges	(1,856)	-	(1,856)	(11)
Total Nonoperating Revenues (Expenses)	(437)	724	287	618
Income before operating transfers and contributions	14,344	997	15,341	(1,943)
Contributions in aid of construction	6,636	-	6,636	-
Transfers in	-	-	-	232
Transfers out	(2,842)	(1,863)	(4,705)	(775)
Change in Net Assets	18,138	(866)	17,272	(2,486)
Total Net Assets, October 1, As Restated	324,375	33,826	358,201	19,321
Total Net Assets, September 30	$ 342,513	$ 32,960	$ 375,473	$ 16,835

Net change in net assets - total proprietary funds	$ 17,272
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	(403)
Net assets of business-type activities	$ 16,869

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities- Enterprise Funds			Governmental Activities-
	Water and Sewer	Sanitary Landfill	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 79,483	$ 7,906	$ 87,389	$ 26,119
Cash payments to suppliers	(41,942)	(2,425)	(44,367)	(3,143)
Cash payments to employees	(12,180)	(1,267)	(13,447)	(23,140)
Net Cash Provided By Operating Activities	25,361	4,214	29,575	(164)
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:				
Operating transfers in	-	-	-	232
Operating transfers out	(2,842)	(1,863)	(4,705)	(775)
Net Cash Used For Noncapital Financing Activities	(2,842)	(1,863)	(4,705)	(543)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(24,743)	(2,929)	(27,672)	(1,460)
Principal payments on capital lease	-	-	-	(57)
Interest payments on capital lease	-	-	-	(11)
Proceeds from sales of capital assets	-	-	-	309
Contribution in aid of construction	6,637	-	6,637	-
Receipt of special assessments	1	-	1	-
Proceeds from issuance of long-term debt	15,000	-	15,000	-
Repayment of long-term debt	(11,267)	-	(11,267)	-
Interest payment long-term debt	(5,107)	-	(5,107)	-
Net Cash Used For Capital And Related Financing Activities	(19,479)	(2,929)	(22,408)	(1,219)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from interest earnings	1,722	804	2,526	449
Net increase (decrease) in the fair value of investments	(171)	(80)	(251)	(129)
Purchase of investments	(114,251)	-	(114,251)	4,638
Maturities/sales of investments	103,173	-	103,173	-
Net Cash Provided By Investing Activities	(9,527)	724	(8,803)	4,958
Net Increase (Decrease) In Cash And Cash Equivalents	(6,487)	146	(6,341)	3,032
Cash And Cash Equivalents, October 1	13,235	28,776	42,011	8,200
Cash And Cash Equivalents, September 30	$ 6,748	$ 28,922	$ 35,670	$ 11,232
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income	$ 14,781	$ 273	$ 15,054	$ (5,733)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	8,484	1,170	9,654	2,804
Interest earnings capitalized	(303)	-	(303)	-
Interest expense capitalized	3,117	-	3,117	-
Amortization of bond discount	(131)	-	(131)	-
Amortization of deferred refunding loss	267	-	267	-
Provision for bad debts	229	-	229	-
(Increase) decrease in-				
Receivables	(1,492)	9	(1,483)	40
Inventory of supplies	63	1,196	1,259	51
less developer contributions	-	49	49	-
Increase (decrease) in-				
Accounts payable and accrued liabilities	392	(319)	73	172
Estimated claims payable	-	-	-	2,491
Retainage payable	(490)	(16)	(506)	-
Meter deposits	258	-	258	-
Accrued compensated absences	186	6	192	11
Closure/post-closure liability	-	1,846	1,846	-
Total adjustments	10,580	3,941	14,521	5,569
Net Cash Provided By Operating Activities	$ 25,361	$ 4,214	$ 29,575	$ (164)

CITY OF ARLINGTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 8,461
Accounts receivable	-	3
Investments	68,383	135
Total Assets	68,383	8,599
LIABILITIES		
Accounts payable and accrued liabilities	1	8,464
IRC 401 deferred compensation plans	-	135
Total Liabilities	1	8,599
NET ASSETS		
Held in trust for pension benefits	$ 68,382	

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds
ADDITIONS	
Employer contributions	$ 2,360
Employee contributions	4,872
Net depreciation in fair value of investments	(6,323)
Total Additions	909
DEDUCTIONS	
Benefits	4,851
Plan administration	27
Total Deductions	4,878
Decrease in Net Assets	(3,969)
Net Assets, October 1	72,351
Net Assets, September 30	$ 68,382

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Arlington, Texas (the "City") was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Council Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and sewer utilities, and general administrative services.

The Comprehensive Annual Financial Report (the "Report") of the City includes all funds and component units. The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

A. New Accounting Standards Adopted

In fiscal year 2002, the City adopted three new statements of financial accounting standards and one new interpretation issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*
- Statement No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*
- Statement No. 38 - *Certain Financial Statement Disclosures*
- Interpretation No. 6 - *Recognition and Measurements of Certain Liabilities & Expenditures in Governmental Fund Financial Statements*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

The City's implementation of these standards had the following impact on the City's financial statements:

- The City has historically capitalized all capital assets, excluding infrastructure. The City also has not recorded annual depreciation expense or the related accumulated depreciation. As of October 1, 2001, the City recorded infrastructure assets of $651,969,000 and recognized $370,766,000 in accumulated depreciation on all governmental activity assets that had not previously been recognized.

- Certain liabilities related to compensated absences and arbitrage had previously been recognized within the City's general fund. Upon implementation of GASB Interpretation No. 6 these items do not meet the definition of a governmental fund liability. Therefore, the amount accrued of $1,178,000 for compensated absences and $824,000 for arbitrage have been removed from fund liabilities and have been added to the beginning fund balance.

- The City recorded capital assets within certain Internal Service Funds totaling $4,136,000 which had not been recorded at September 30, 2001.

As part of the City's efforts to implement these standards, the City identified several transactions that had occurred in previous years that were not recorded or recognized within the City's general ledger.

- The City recorded a liability of $3,172,000 for the terminal reserve in the Group Health Internal Service Fund as of September 30, 2001.

- The City recognized revenues of $614,000 related to certain governmental grants within the City's nonmajor governmental funds as of September 30, 2001, which had previously been recorded as deferred revenues.

- The Arlington Property Finance Authority Internal Service Fund recognized a capital contribution from the General Fund of $7 million as of September 30, 2001, which had previously been recorded as deferred revenue.

A table depicting these changes follows:

	Nonmajor General Fund	Internal Governmental Funds	Service Funds
Fund balance, beginning of year, as previously reported	$19,659	$40,713	$11,357
Elimination of compensated absences accrual	1,178	-	-
Elimination of arbitrage liability	824	-	-
Record capital assets	-	-	4,136
Recognize deferred revenues	-	614	7,000
Record terminal reserve liability	-	-	(3,172)
Fund balance, beginning of year, as restated	$21,661	$41,327	$19,321

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Accordingly, the accounting and financial reporting of the City's General Fund, Streets Capital Projects Fund and Debt Services Fund is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34 to focus on major funds, as opposed to presenting fund types.

Statement No. 34 also requires certain required supplementary information in the form of Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Statement No. 37 amends GASB Statements No. 21 and No. 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34. Generally, escheat property that was reported in an expendable trust fund in the previous model should be reported in a private purpose trust fund under Statement 34. Additionally, the amendments either (1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application or (2) modify other provisions that the GASB Board believes may have unintended consequences in some circumstances. This statement became effective for the City in fiscal year 2002.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements. This statement has become effective to the City in two phases – certain provisions became effective in fiscal year 2002 and certain other provisions will become effective in fiscal year 2003.

Interpretation 6 is an interpretation of NCGA Statements 1, 4, and 5; NCGA Interpretation 8; and GASB Statement Nos. 10, 16, and 18. It clarifies the existing modified accrual standards for distinguishing the portion of a liability that should be reported as a governmental fund liability/expenditure from the portion that should be reported as a general long-term liability (i.e., government-wide reporting only).

B. Reporting Entity

The City is governed by an elected mayor and nine-member council. As required by generally accepted accounting principles, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable.

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

Arlington Sports Facilities Development Authority, Inc.

The Arlington Sports Facilities Development Authority, Inc.'s (the "ASFDA") board of directors is appointed by the City Council. The ASFDA's management is designated by the City, and City employees are responsible for the ASFDA's daily operations. The City is financially accountable for the ASFDA's activities. Separate ASFDA component unit financial statements can be obtained from the City's Finance Department.

Arlington Housing Authority

The Arlington Housing Authority's (the "AHA") board of commissioners is appointed by the Mayor. The AHA's management is designated by the City. The employees who are responsible for daily operations of the AHA are City employees. The City has financial accountability over the AHA's activities. The audited financial statements of the AHA are prepared in accordance with accounting principles generally accepted in the United States (GAAP). Separate AHA component unit financial statements can be obtained from the AHA at 501 W. Sanford Street, Suite 20, Arlington, Texas 76010.

Arlington Convention and Visitors Bureau, Inc.

The Arlington Convention and Visitors Bureau, Inc.'s (the "ACVB") board of directors is appointed by the City Council. The primary source of revenue for the ACVB is a professional services support contract with the City; therefore, the City has financial accountability over the ACVB's activities. Separate ACVB component unit financial statements can be obtained from the ACVB at 1905 E. Randol Mill Road, Arlington, Texas 76011.

Arlington Housing Finance Corporation

The Arlington Housing Finance Corporation's (the "AHFC") board of directors is appointed by the City Council. The AHFC's management is designated by the City, and City employees are responsible for the daily activities of the AHFC; accordingly, the City has financial accountability over AHFC's activities. The AHFC does not issue separate financial statements.

Arlington Industrial Development Corporation

The Arlington Industrial Development Corporation's (the "AIDC") board of directors is appointed by the City Council. The AIDC's management is designated by the City, and City employees are responsible for the daily activities of the AIDC; accordingly, the City has financial accountability over AIDC's activities. The AIDC does not issue separate financial statements.

The financial statements of the following component units have been "blended" with those of the City because (i) their governing bodies are substantially the same as the governing body of the City or (ii) the component unit provides services entirely to the City.

Arlington Property Finance Authority, Inc.

The Arlington Property Finance Authority's (the "APFA") board of directors is appointed by the City Council, and the City management maintains significant continuing management oversight with respect to APFA's policies. Additionally, the APFA provides services entirely to the City and its employees.

Thrift Savings Plan

The Thrift Savings Plan's (the "Thrift") governing board and trustee are appointed by the City Council. The City Council also directs the operations of the Thrift and has a significant influence over its investment policies. Additionally, the Thrift provides services exclusively to City employees.

Disability Income Plan

The Disability Income Plan's (the "DIP") governing board is appointed by the City Council. Additionally, the City Council appoints the DIP trustee and significantly influences its activities. The DIP exclusively covers City employees.

Part-Time Deferred Income Trust

The Part-Time Deferred Income Trust's (the "PTDIT") governing board is appointed by the City Council. Additionally, the City Council appoints the PTDIT trustee and significantly influences its activities. The PTDIT exclusively covers City employees.

C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model as defined by GASB Statement No. 34 the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund and street improvements fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

Internal Service Funds, which traditionally provide services primarily to other funds of the government, are presented in the summary form as part of the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government wide level. To the extent possible, the cost of these services are reflected in the appropriate functional activity (Public Safety, Public Works, etc.).

The City's fiduciary funds (which have been refined and narrowed in scope) are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

D. Measurement Focus and Basis of Accounting

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

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Business type activities and all proprietary funds, and the pension trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, and sanitary landfill funds are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The following major funds are used by the City:

1. Governmental Funds:

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City.

b. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

c. Street capital project fund accounts for the financing and acquisition of right of way and construction of streets and related facilities. Funds are provided primarily through bond sales, and interest earnings.

d. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

2. Proprietary Funds:

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. The following is a description of the major Proprietary Funds of the City:

a. Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

b. Sanitary Landfill Fund accounts for the operations of the City's landfill. Customers are billed monthly at a rate sufficient to cover the cost of providing such service.

3. Other Fund Types:

The City additionally reports for the following Fund types:

a. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis.

b. Agency Funds are used to account for assets held by the City in an agency capacity for individuals, local law enforcement agencies or developers.

c. Pension Trust Fund is used to account for the accumulation of resources to be used for the retirement benefit payments to employees of the City.

4. Non-Current Governmental Assets/Liabilities:

GASB Statement No. 34 eliminates the presentation of Account Groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide Statement of Net Assets.

E. <u>Cash, Cash Equivalents and Investments</u>

To facilitate cash management, the operating cash of certain funds and component units is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds and component units except the ASFDA, the Trust Funds, and the AHA, all of which maintain separate investments. Each fund's portion of this pool is allocated through its cash and cash equivalent account on the balance sheet. In addition, certain investments are separately held by several of the City's funds. Interest is allocated on a quarterly basis to all funds in the investment pool based on their average balance at the end of each month. Interest earned by separate investments is credited to the respective funds.

For purposes of the statement of cash flows, the City considers all unrestricted investments included in its cash management pool to be cash equivalents as these balances are used essentially as demand deposit accounts by the individual funds. Investments included in the cash management pool which are restricted for use are reported as investments. Additionally, certificates of deposit and temporary investments held separately from the City's cash management pool and which have maturities of three months or less are reported as cash equivalents.

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreements; however, the City has not invested in such instruments during fiscal 2002.

In accordance with GASB Statement No. 31, investments are recorded at fair value.

Effective September 1, 1995, the legislature of the state of Texas amended the Public Funds Investment Act (the "Investment Act"). Effective September 1, 1997, the legislature further amended the Investment Act. The current Investment Act governs items such as investment strategies and policies, training for investment officers, reporting requirements, and types of investments allowed.

F. <u>Inventories and Prepaid Items</u>

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

G. <u>Capital Assets</u>

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized when material.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Improvements other than buildings	20 - 40
Equipment	4 - 10
Drainage improvements	35 - 50
Meters	10
Streets	20 - 25
Storm/sanitary sewer	50
System infrastructure	20 - 50

H. Capitalization of Interest

In conformity with Financial Accounting Standards No. 34, "Capitalization of Interest Cost," the City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2002, approximately $2,814,000 of interest costs, net of $303,000 of interest earned, were capitalized as fixed assets in the Water and Sewer Fund as part of the costs of constructing various projects. Total interest costs and interest earned in fiscal 2002 for the Water and Sewer Fund amounted to approximately $1,856,000 and $1,590,000, respectively.

I. Arbitrage Liability

The City accrues a liability for an amount of rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. Such investment activities can result in interest revenue exceeding interest cost. The arbitrage liability is payable to the federal government every five years; however, the City calculates and records its arbitrage liability annually. The arbitrage liability is recorded as a liability in the government-wide and proprietary fund types, as applicable, on the accrual basis and as a reduction of interest income on the invested debt proceeds.

J. Compensated Absences

The City's employees earn vacation leave for each month of work performed. The accrual rate increases with years of service up to a maximum of 20 days per year for 15 years of service and over. On specified anniversary dates, additional days are credited, up to certain amounts, according to length of service. Accrued vacation is paid to the employees upon termination of employment for employees who have completed at least six months of continuous service.

The City's employees accumulate 1.25 days of sick leave per month with a maximum accrual of 150 days (180 for fire fighters). For employees with more than five years of service, one-fourth of the total amount of accumulated sick pay up to a maximum of 120 days is paid at termination. The full amount accumulated up to 120 days maximum is paid if termination is through retirement or death.

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains the "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $323,818,000 difference are as follows (amounts in thousands):

Bonds payable	$299,650
Less: Deferred charge for issuance costs (to be amortized as interest expense)	(50)
Accrued interest payable	1,978
Arbitrage rebate	824
Sales tax payable	1,491
Compensated absences	19,925
Net adjustment to reduce fund balance - total governmental funds To arrive at net assets - governmental activities	$323,818

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense." The details of the $16,994,000 difference are as follows (amounts in thousands):

Capital outlay	$49,704
Depreciation expense	(32,710)
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	$16,994

Another element of that reconciliation states "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $2,993,000 difference are as follows (amounts in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	($24,920)
Less: Issuance costs	53
Principal repayments:	
General obligation debt	27,860
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$ 2,993

Another element of that reconciliation states: "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." The details of this $5,100,000 difference are as follows (amounts in thousands):

Compensated absences	($1,628)
Accrued interest expense	(1,978)
Amortization of issuance cost	(3)
Sales tax	(1,491)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	($5,100)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit fund equity

The Group Health internal service fund deficit balance of $1,766 is a result of the terminal reserve requirement. The contract with the current provider, Cigna HealthCare will end on December 31, 2002. Funds will be transferred from the General Fund in FY 03 once a majority of the run-out claims from the Cigna HealthCare contract have been paid.

Special Revenue funds, funded by State and Federal Grants, submit their expenses to associated governmental agencies for reimbursement. For the fiscal year ending September 30, 2002, the Home Investment Partnership fund deficit of $73 is funded by Federal Grants, reimbursements from which will replenish the fund balance in the following fiscal year.

IV. DETAILED NOTES ON ALL FUNDS

1. DEPOSITS AND INVESTMENTS:

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2002. At year-end, the carrying amount of the City's demand deposits was an overdraft of $(6,515,000) (bank balance, $1,083,560). The bank balance was covered by collateral with a fair value of $5,181,370. The collateral is held in the City's name by the Federal Home Loan Bank of Dallas, an agent of the City's financial institution. (Category 2 - Collateralized with securities held by the pledging financial institution's agent in the City's name).

Investments - State statutes and City Bond Ordinances authorize the City's investments. The City is authorized to invest in U. S. Government obligations and its agencies, obligations of Texas and its agencies, fully collateralized repurchase agreements, prime domestic commercial paper, prime domestic bankers acceptances, government pools and money market funds consisting of any of these securities listed. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes investments that are uninsured and unregistered, or for which securities are held by the counterpart’s trust department or agent in the entity's name. Category 3 includes investments that are uninsured and unregistered, or for which the securities are held by the counterpart, or by its trust department or agent but not in the entity's name. The short-term investment pools are not evidenced by securities that exist in physical or book entry form and accordingly, not categorized for credit risk. The City has the ability and intent to hold investments until maturity and not realize losses due to market decline.

The City's investments carried at fair value as of September 30, 2002 are:

	Category of Risk	Fair Value
Investments		
Treasury Notes	(1)	$ 96,372
Federal Home Loan Bank, Notes and Discount Notes	(1)	19,574
Federal Farm Credit Bank, Notes and Discount Notes	(1)	2,160
Federal National Mortgage Assoc., Notes and Discount Notes	(1)	34,392
Federal Home Loan Mortgage Assoc., Notes and Discount Notes	(1)	18,271
State and Local Government Securities	(1)	3,731
		174,500
Deposits		
Demand Deposits (all bank accounts)	(1)	(6,515)
		(6,515)
Mutual Funds, Investment Pools and Other		
TEXPOOL	N/A	19,987
FidelityN/A	3,922	
Deferred Compensation Investments	N/A	135
Trust Fund Investments	N/A	68,383
Cash on Hand	N/A	73
		92,500
Total Investments and Deposits		$260,485

Component Units

	Category of Risk	Fair Value
Investments		
Treasury STRIPS	(1)	$ 1,137
Deposits		
Certificates of Deposit	(1)	3,637
Demand Deposits	(1)	4,479
Mutual Funds, Investment Pools and Other		
TEXPOOL	N/A	205
U.S. Treasury Portfolio II	N/A	944
Total Investments and Deposits		$10,402

Investments in the Retirement Security Plan are held by a bank trust department.

Investments of the City, other than for 2a7-like pools, are valued based upon quotes obtained from Interactive Data Corporation (IDC). Investments in 2a7-like pools, are valued based upon the value of pool shares. No investments are reported at amortized cost. The City currently invests in one 2a7-like pool, the Texas Local Government Investment Pool (Texpool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Ch. 791 and the Texas Government Code Ann. Ch. 2256. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of Texpool and is a limited purpose trust company authorized pursuant to Texas Government Cod Ann. Section 404.103 for which the Texas State Comptroller is the sole officer, director and shareholder. The advisory board of Texpool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government

Code Ann. Ch. 2256. The City's investment in Texpool and short-term investments (treasury money market funds) are not categorized because they are not evidenced by securities that exist in physical or book entry form.

A reconciliation of cash and investments as shown on the Statement of Net Assets for the City follows: (amounts in thousands):

	Primary Government	Component Units	Reporting Entity	Fiduciary Funds
Cash on Hand	$ 73	$ -	$ 73	$ -
Carrying Amount of Deposits	(14,976)	8,116	(6,860)	8,461
Carrying Amount of Investments	198,409	2,286	200,695	68,518
	$183,506	$10,402	$193,908	$76,979
Cash and Cash Equivalents	$129,110	$3,373	$132,483	$ 8,461
Investments	3,428	7,029	10,457	68,518
Investments-Restricted	50,968	-	50,968	-
	$183,506	$10,402	$193,908	$76,979

2. PROPERTY TAXES:

Property Taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. All unpaid taxes attach as a lien on property as of January 1 and become enforceable February 1. Penalty and interest is charged at 7 percent on delinquent taxes beginning February 1, and increase each month to 18 percent on July 1.

Appraised values are established by the Tarrant Appraisal District at 100percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2001, upon which the original 2002 levy was based, was $13,513,379,000.

City property tax revenues are recorded as receivables and deferred revenues at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year-end. An allowance is provided for delinquent personal property taxes not expected to be collected in the future.

For the fiscal year ended September 30, 2002, the City had a tax rate of $0.6340 per $100 valuation with a tax margin of $1.8660 per $100 valuation based upon a maximum ad valorem tax of $2.50 per $100 valuation permitted by ArticleXI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately $252,159,000 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $13,513,379,000.

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

3. RECEIVABLES:

Receivables at September 30, 2002 for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

(Amounts expressed in thousands)

	General	Debt Service	Streets Capital Projets	Water & Sewer	Sanitary Landfill	Nonmajor Governmental Funds	Total
Receivables:							
Taxes	$ 7,286	$ -	$ -	$ -	$ -	$ 1,235	$ 8,521
Trade Accounts	7,053	-	-	8,985	-	-	16,038
Unbilled Trade Accounts	-	-	-	5,456	-	-	5,456
Special Assessments	-	-	528	-	-	-	528
Sales Taxes	7,210	-	-	-	-	-	7,210
Accrued Interest	790	-	-	-	-	-	790
Other	2,290	-	-	340	463	3,013	6,106
Gross Receivables	24,629	-	528	14,781	463	4,248	44,649
Less: Allowance for Uncollectibles	(4,160)	-	-	(2,281)	-	(125)	(6,566)
Net total Receivables	$ 20,469	$ -	$ 528	$ 12,500	$ 463	$ 4,123	$ 38,083

4. CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2002 was as follows:

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 63,120	$ 5,253	$ -	$ 68,373
Construction in progress	105,402	45,523	(40,517)	110,408
Total capital assets, not being depreciated	168,522	50,776	(40,517)	178,781
Capital assets, being depreciated:				
Buildings	79,025	6,532	$ -	85,557
Improvements other than buildings	47,413	5,607	-	53,020
Equipment	35,308	2,139	(668)	36,779
Infrastructure	651,969	26,427	-	678,396
Total capital assets being depreciated	813,715	40,705	(668)	853,752
Less accumulated depreciation for:				
Buildings	20,284	1,642	-	21,926
Improvements other than buildings	14,666	2,015	-	16,681
Equipment	18,787	3,828	(836)	21,779
Infrastructure	331,488	28,021	(706)	358,803
Total accumulated depreciation	385,225	35,506	(1,542)	419,189
Total capital assets, being depreciated, net	428,490	5,199	874	434,563
Governmental activities capital assets, net	$ 597,012	$ 55,975	$ (39,643)	$ 613,344

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Water and sewer activities:				
Capital assets, not being depreciated:				
Land	$ 4,828	$ -	$ -	$ 4,828
Construction in progress	78,011	17,738	(34,762)	60,987
Total capital assets, not being depreciated	82,839	17,738	(34,762)	65,815
Capital assets, being depreciated:				
Buildings and Improvements	2,833	-	-	2,833
Water and sewer system	392,140	41,647	-	433,787
Machinery and equipment	9,431	120	-	9,551
Total capital assets being depreciated	404,404	41,767	-	446,171
Less accumulated depreciation for:				
Buildings and Improvements	699	53	-	752
Water and sewer system	115,570	8,181	-	123,751
Machinery and equipment	8,486	250	-	8,736
Total accumulated depreciation	124,755	8,484	-	133,239
Total capital assets, being depreciated, net	279,649	33,283	-	312,932
Water and sewer activities capital assets, net	$ 362,488	$ 51,021	$ (34,762)	$ 378,747

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Sanitary Landfill:				
Capital assets, not being depreciated:				
Land	$ 4,618	$ -	$ -	$ 4,618
Construction in progress	445	24	-	469
Total capital assets, not being depreciated	5,063	24	-	5,087
Capital assets, being depreciated:				
Buildings and Improvements	10,697	2,905	-	13,602
Machinery and equipment	3,293	-	-	3,293
Total capital assets being depreciated	13,990	2,905	-	16,895
Less accumulated depreciation for:				
Buildings and Improvements	9,933	1,032	-	10,965
Machinery and equipment	2,753	139	-	2,892
Total accumulated depreciation	12,686	1,171	-	13,857
Total capital assets, being depreciated, net	1,304	1,734	-	3,038
Sanitary Landfill activities capital assets, net	$ 6,367	$ 1,758	$ -	$ 8,125

Depreciation expense was charged to functions/programs of the primary government as follows:

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 9,446	$ -	$ -	$ 9,446
Construction in progress	78,456	17,762	(34,762)	61,456
Total capital assets, not being depreciated	87,902	17,762	(34,762)	70,902
Capital assets, being depreciated:				
Buildings and Improvements	13,530	2,905	-	16,435
Water and sewer system	392,140	41,647	-	433,787
Machinery and equipment	12,724	120	-	12,844
Total capital assets being depreciated	418,394	44,672	-	463,066
Less accumulated depreciation for:				
Buildings and Improvements	10,632	1,084	-	11,717
Water and sewer system	115,570	8,181	-	123,751
Machinery and equipment	11,239	389	-	11,628
Total accumulated depreciation	137,441	9,654	-	147,096
Total capital assets, being depreciated, net	280,953	35,018	-	315,970
Business-type activities capital assets, net	$ 368,855	$ 52,780	$ (34,762)	$ 386,872

Governmental activities:	
General Government	$ 1,745
Public Safety	117
Parks and recreation	1,914
Public works	28,901
Public health	33
Capital assets held by the government's internal service Funds are charged to the various functions based on Their usage of the assets	2,796
Total depreciation expense – governmental activities	$35,506
Business-type activities:	
Water and sewer	$8,484
Sanitary landfill	1,170
Total depreciation expense – business-type activities	$9,654

The City uses the straight-line depreciation method for property, plant and equipment based on the following estimated useful lives by major class of depreciable fixed assets:

Class	
Building and Improvements	40-50 years
Machinery and equipment	4-10 years
Water and sewer systems	50 years
Infrastructure	20-50 years

Discretely presented component units

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Arlington Sports Facilities Development Authority, Inc.:				
Capital assets, not being depreciated:				
Land	$ 43,515	$ -	$ -	$ 43,515
Total capital assets, not being depreciated	43,515	-	-	43,515
Capital assets, being depreciated:				
Buildings and Improvements	157,625	-	-	157,625
Total capital assets being depreciated	157,625	-	-	157,625
Less accumulated depreciation for:				
Buildings and Improvements	27,616	3,682	-	31,298
Total accumulated depreciation	27,616	3,682	-	31,298
Total capital assets, being depreciated, net	130,009	(3,682)	-	126,327
Arlington Sports Facility Development Authority, Inc. activities capital assets, net	$ 173,524	$ (3,682)	$ -	$ 169,842

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Arlington Housing Authority:				
Capital assets, being depreciated:				
Machinery and equipment	$ 1,060	$ 40	$ -	$ 1,100
Total capital assets being depreciated	1,060	40	-	1,100
Less accumulated depreciation for:				
Machinery and equipment	525	30	-	555
Total accumulated depreciation	525	30	-	555
Total capital assets, being depreciated, net	535	10	-	545
Arlington Housing Authority activities capital assets, net	$ 535	$ 10	$ -	$ 545

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Arlington Convention and Visitors Bureau, Inc.:				
Capital assets, being depreciated:				
Machinery and equipment	$ 393	$ 57	$ -	$ 450
Total capital assets being depreciated	393	57	-	450
Less accumulated depreciation for:				
Machinery and equipment	251	49	-	300
Total accumulated depreciation	251	49	-	300
Total capital assets, being depreciated, net	142	8	-	150
Arlington Convention and Visitors Bureau, Inc. activities capital assets, net	$ 142	$ 8	$ -	$ 150

5. PENSION AND EMPLOYEE BENEFIT PLANS

Texas Municipal Retirement System

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 758 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 10 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

The contribution rate for the employees is 7 percent, and the City matching percent is currently 200 percent, both as adopted by the City Council. Under the state law governing TMRS, the City contribution rate is annually determined by the actuary. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

Thrift Savings Plan

All full-time City employees may participate in the Thrift Savings Plan (the "Thrift"), a single-employer defined contribution plan administered by the Retirement Committee at the City. The plan provisions and contribution requirements are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401 (k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of participation with full vesting taking place after six years of participation. At September 30, 2002, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $67,220,000.

The City's total payroll during fiscal 2002 was $120,982,000. The current year contribution was calculated based on a covered payroll of $90,564,000, resulting in a required and actual employer contribution of $2,011,000 and actual employee contributions of $4,791,000. The employer contribution represents 2.2 percent of the covered payroll. The employee contribution represents approximately 5.3 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2002. There were no related-party transactions.

Part-Time Deferred Income Trust

The City provides retirement benefits for all part-time, seasonal, and temporary employees through the Part-time Deferred Income Trust Plan (the “PDIT”), a single-employer defined benefit plan administered by the City of Arlington’s Human Resources Department. The PDIT was adopted by the City Council in accordance with the safe harbor rules of the Internal Revenue Service regulations. The PDIT does not issue separate stand-alone financial statements.

The contribution rate for employees is 3 percent, and the City’s actuarially determined matching percent is currently 2.3 percent. The City’s required contribution rate was determined as part of the July 1, 2000, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities. As a result of this study, it was determined that the City’s portion was over funded and therefore no contribution was made by the City for fiscal year 2002. For 2002, 2001, 2000, 1999, 1998, and 1997 the City contributed 100 percent of the annual pension cost totaling approximately $0, $0, $75,000, $69,000, $59,000, and $59,000 respectively.

Benefits depend on length of service to the City and the employee’s total contributions. At normal retirement age (65), the benefit consists of monthly payments equal to a percentage of the employee’s average pay multiplied by years of service. The percentage of the employee’s pay ranges from 1.50 percent to 2.00 percent, depending on the number of months service.

IRC 457 Deferred Compensation Plans

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is administered by Fidelity Investments. In addition, the City offers its executive employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is administered by the International City Management Association Retirement Corporation (the "ICMA"). Due to the fact that the City does not administer these plans, these plans are not included in the City's financial statements.

Disability Income Plan

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (the "DIP"), a single-employer disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund. As of July 1, 2002, the date of the latest actuarial valuation, the DIP had benefit liabilities to disabled participants of $3,104,000. The market value of DIP assets at July 1, 2002, was $288,000. The resulting unfunded DIP liability of $2,816,000 will be funded by employer contributions over 30 years.

City contributions for the above plans for the year ended September 30, 2002, are as follows (amounts in thousands):

TMRS	$14,099
THRIFT	2,011
PTDIT	-
DIP	349
	$16,459

Other Post employment Benefits

The City provides postretirement health care benefits to eligible employees who retire from the City with at least 10 years of service with the City of Arlington. Currently, 432 retirees meet those eligibility requirements. Retirees may select from two HMO's and two PPO plans. The City coordinates with Medicare as the primary payer for retirees and/or their dependents age 65 and older. Expenditures for postretirement health care benefits are recognized as retirees report claims. During the year, expenditures of $1,707,000 were recognized for postretirement health care.

6. LONG-TERM DEBT:

General Long-Term Debt

The City issued $23,820,000 of Permanent Improvement Bonds, Series 2002. The City also issued $1,100,000 of Combination Tax and Revenue Certificates of Obligation, Series 2002, during FY 2002 at an effective interest rate of 4.33 percent, with all issuances scheduled to mature serially from 2003 to 2022. The bond and certificate proceeds will be used to make various capital improvements.

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received $2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state will withhold $18,568 monthly from the City's sales tax allocations beginning in March 2003. As of September 30, 2002, this was accounted for as a long-term liability of $1,491,319 in the governmental activities and $736,867 in the component units of the statement of net assets with a corresponding expense in the statement of activities. Beginning in 2003, as sales tax allocations are reduced monthly, the City will record an expense at the fund level to reduce the liability and record sales tax revenue for the amount of the monthly sales tax allocation withheld by the Comptroller's office. The City will also record a fund liability to the extent that sales tax revenues are recognized and accrued at year-end.

General long-term debt balances and transactions for the year ended September 30, 2002, are as follows (amounts in thousands):

	Balance, October 1, 2001	Additions	Retirements and Other	Balance, September 30, 2002	Due Within One Year
General obligation debt [1]	$302,590	$24,920	$(27,860)	$299,650	$27,420
Accrued compensated absences	17,280	1,639	1,443	20,362	1,192
Claims Payable	6,423	2,617	(126)	8,914	5,522
Sales tax payable	-	1,491	-	1,491	112
Total	$326,293	$30,667	$(26,543)	$330,417	$34,246

[1] The general obligation debt of $299,650 consists of serial and term bonds and certificates of obligation payable from general property taxes. The bonds mature annually in varying amounts through fiscal year 2022, and interest is payable semiannually at rates ranging from 2.35 percent to 8.90 percent.

The principal and interest requirements of the above general obligation debt at September 30, 2002, are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2003	$ 27,420	$ 15,245	$ 42,665
2004	27,480	13,767	41,247
2005	24,975	12,373	37,348
2006	22,870	11,131	34,001
2007	20,730	9,977	30,707
2008-2012	86,610	35,530	122,140
2013-2017	65,225	15,551	80,776
2018-2022	24,340	2,772	27,112
	$299,650	$116,346	$415,996

General obligation debt authorized and unissued as of September 30, 2002, amounted to $46,635,000.

Debt of the Enterprise Funds

The City issued $15,000,000 of Water and Wastewater System Revenue Bonds, Series 2002 during 2002 at an effective interest rate of 4.75 percent and are scheduled to mature serially from 2003 to 2021. The bond proceeds will be used to improve and extend the City's Water and Wastewater System.

The revenue bonds of the Enterprise Funds are payable from operations of the Water and Sewer Fund. The bonds mature annually in varying amounts through fiscal year 2021, and interest is payable semiannually at rates ranging from 3.5 percent to 7.5 percent.

Debt balances and transactions for the year ended September 30, 2002, are as follows (amounts in thousands):

	Balance, October 1, 2001	Additions	Retirements and Other	Balance, September 30, 2002	Due Within One Year
Waterworks and Sewer System-					
Revenue bonds	$90,955	$15,000	($11,380)	$94,575	11,357
Deferred amount on refunding	(113)	-	113	-	-
Total	$90,842	$15,000	($11,267)	$94,575	$11,357

The revenue bonds are collateralized by the revenue of the water and sewer system and assets of various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is first to be used to pay operating and maintenance expenses of the system and secondly to establish and maintain the special funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts calculated in accordance with provisions of the existing bond ordinances and certain financial ratios are met.

The principal and interest requirements at September 30, 2002, for the enterprise fund debt for the next five years and, thereafter, are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Waterworks and Sewer System Revenue Bonds
2003	$ 11,635	$ 4,872	$ 16,507
2004	10,560	4,063	14,623
2005	9,205	3,550	12,755
2006	8,460	3,107	11,567
2007	7,705	2,698	10,403
2008-2012	24,515	9,165	33,680
2013-2017	15,770	3,856	19,626
2018-2021	6,725	731	7,456
	$94,575	$32,042	$126,617

Long-Term Debt of the Discretely Presented Component Units

As part of the Incremental Funding, as defined in the Agreement, on February 2, 1993, the Authority authorized the issuance of $20,124,000 Junior Lien Revenue Bonds, First Series (the "Bonds"). The Bonds are noninterest-bearing limited special obligations of the Authority, secured by a subordinated junior lien on the one-dollar ticket surcharge, up to $2,000,000 annually, remaining after any amounts needed to pay interest and principal on the Notes and the Junior Lien Revenue Notes, as hereinafter defined. The Bonds are due on December 31, 2008, and are callable at any time at the option of the Authority. As of September 30, 2002, $17,109,350 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Project.

7. PRIOR YEAR BOND REFUNDINGS

In prior years, the City legally defeased certain general obligation, revenue, and other bonds by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's report. As of September 30, 2002, previously defeased debt still outstanding amounted to $55,775,000.

8. INTERFUND TRANSACTIONS:

A summary of interfund receivables and payables at September 30, 2002 is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	$1,817	$ -
Nonmajor Funds	-	1,817
	$1,817	$1,817

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2003.

Transfers between funds during the year were as follows:

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	$ 4,426	$ 5,332
Debt Service Fund	-	3,330
Street Capital Projects Fund	100	-
Total Major Governmental Funds	4,526	8,662
Nonmajor Governmental Funds:		
Special Revenue Funds		
Park Performance	298	-
Texas Criminal Justice Division	-	234
Convention & Event Services	2,332	368
Federal Transit Administration – Handitran	-	422
Texas Parks & Wildlife	-	397
U.S. Department of Justice	-	836
Texas Department of Transportation	-	158
Street Maintenance	-	2,161
Other Special Revenue	171	770
Community Development Block grant	19	-
Total Special Revenue Funds	2,820	5,346
Capital Projects Funds:		
Municipal Office Tower	$ -	$ 150
Park	1,413	309
Airport	-	12
Fire	150	-
Traffic	49	-
Cooper House Project	273	-
Total Capital Projects Funds	1,885	471
Major Enterprise Funds:		
Water & Sewer	2,842	-
Sanitary Landfill	1,863	-
Total Major Enterprise Funds	4,705	-
Internal Service Funds:		
Arlington Property Finance Authority – APFA	775	-
Fleet Services	-	232
Technology Services	-	-
Total Internal Service Funds	775	232
Total All Funds	$14,711	$14,711

The combined Water and Sewer, Convention and Event Services, Arlington Property Finance Authority, and Sanitary Landfill Funds transferred $3,923,000 to the General Fund to cover their budgeted indirect costs. The Sanitary Landfill also transferred $1,231,000 to the General Fund for repayment of land.

The General Fund transferred $3,502,000 to Street Maintenance Fund, Special Transportation (Handitran), and other special revenue funds to cover budgeted operating expenses. To fund on-going scheduled maintenance, Infrastructure Maintenance Reserve received $332,000 from the General Fund.

The Debt Service Fund received budgeted transfers of $3,330,000 from the Water and Sewer, Convention and Event Services, Sanitary Landfill and Park Performance Funds to cover debt service repayments.

9. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

The City accounts for its landfill closure and post-closure care costs in accordance with GASB No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs."

State and federal laws and regulations require the City to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $12,049,000 reported as a landfill closure accrued liability at September 30, 2002, represents the cumulative amount reported to date based on the use of approximately 83 percent of the estimated capacity of the active cells of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of $6,620,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2002. The City expects to close the landfill in 2007. Actual costs may change due to inflation, changes in technology, or changes in regulations.

Under state regulations, the City will be required to demonstrate financial assurance that it will fulfill its responsibility for closure and post-closure care of the landfill. The City can demonstrate financial assurance through several mechanisms, including establishing a trust fund, obtaining a surety bond or letter of credit, obtaining insurance or meeting certain financial tests. The City believes that it will meet the financial tests outlined by the state and will not be obligated to demonstrate financial assurance through one of the other mechanisms.

10. COMMITMENTS AND CONTINGENCIES:

Trinity River Authority

The City entered into a fifty-year contract dated October 10, 1973, with the Trinity River Authority (TRA) whereby the TRA agrees to provide supplemental sewage treatment for consideration. Payments by the City are based on metered usage, at rates designed to charge the City a pro rata share of the TRA's annual operating and maintenance expenses, and principal and interest requirements on bonds issued by the TRA.

Grant Audits

The City receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would be insignificant.

Construction Commitments

The City has active construction projects as of September 30, 2002. The projects include street construction, park construction, and the construction of water and sewer facilities. At year end the City's commitments with contractors are as follows (amounts in thousands):

Project	Spend-to-Date	Remaining Commitment
Street Construction	$ 48,123	$12,739
Park Construction	26,880	1,093
Water and Sewer Construction	71,368	6,977
	$146,381	$20,809

The street construction projects are funded primarily by permanent improvement bonds proceeds. The park construction projects are funded by permanent improvement bond proceeds, certificate of obligation proceeds, and park fee revenues. Water and sewer construction projects are funded by revenue bond proceeds and cash from operating revenues of the water and sewer system.

Litigation

The City is involved in a class action lawsuit in which the plaintiff alleges that the City's street maintenance fee as approved by the City Council in October 2000 is an illegal tax. The trial court has concluded that the fee is invalid; however, a final ruling and remedy has not yet been issued by the court. The range of exposure to the City in the event of a refund ruling is $8,200,000 to $9,200,000. The probability of an unfavorable outcome cannot be determined at this time. Accordingly, no accrual has been made.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see Note 11) or insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position, as a whole.

11. RISK MANAGEMENT:

The City's risk management activities are administered through various internal service funds.

Arlington Property Finance Authority (APFA)

The APFA was created for the purpose of acting on the City's behalf in financing various governmental programs as prescribed by ordinance or resolution of the City Council. In October 1986, the City Council adopted an ordinance to establish the City's Self-insurance and Risk Management Program (the "Program"). The purpose of the Program is to provide the City a defined and funded self-insurance program for bodily injury, property damage, personal injury, advertising injury, and regulatory injury.

Based upon the historical claims experience of the City, an analysis of the limits on certain liabilities of the City under Texas law, the payment limitations from the APFA Fund set forth in the Program Ordinance and other actuarial considerations, independent consulting actuaries (the "Actuaries") estimated that a deposit of $10,000,000 in the APFA Fund would provide primary, or first dollar, self-insurance coverage adequate to pay all claims against the City for damages related to injuries that arise out of the above-named risks and to pay the cost and expenses of the APFA Fund for a period of ten years. The APFA issued $9,000,000 of notes payable and the City transferred $1,000,000 from the General Fund in order to fund the Program. In May 1992, $5,000,000 principal amount of the Risk Management Notes were paid, leaving $4,000,000 principal amount outstanding. In August 2001, the City Council adopted an ordinance to extend the program for another four years, when it will expire on September 30, 2005. On August 28, 1996, the City of Arlington Property Finance Authority passed a resolution calling the Notes for early redemption on November 1, 1996. The Notes were redeemed at par on November 1, 1996. On January 12, 1999, the City issued $7,000,000 of Certificates of Obligation, Series 1999 to capitalize the Fund for an additional five years based on a recent actuarial study of the program. The $7,000,000 will be repaid from ad valorem taxes. Under the Program Ordinance, the annual surplus on deposit in the APFA Fund may be withdrawn upon order of the City's APFA Claims Board and used for any lawful purpose. The payments out of the APFA Fund for all purposes cannot exceed $1,000,000 per occurrence and $3,000,000 in aggregate in one annual period. Should claims exceed this amount, the excess claims are to be funded by other available City resources.

The APFA claims liabilities are actuarially determined annually to include the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 4.5 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $1,568,000 at September 30, 2002.

Workers' Compensation

The City's workers' compensation plan provides City employees with workers' compensation insurance through the Workers' Compensation Fund (the "WCF"). Under this program, the WCF provides coverage for up to a maximum of $300,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. No settlements have utilized this commercial insurance coverage for the past three years. All City departments participate in the workers' compensation program. Payments to the WCF from such departments are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 4.0 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $3,889,000 at September 30, 2002.

Group Health

The City's group health insurance plan provides City employees with health insurance through the Group Health Fund (the "GHF"). The premiums for such insurance coverage are paid using funds obtained from payroll deductions and charges to City departments. The City's annual payments related to employee claims is limited to the annual aggregate premium due to the insurance company. This three year contract was effective January 1, 2000, and expires December, 2002. However, the City’s liability includes a terminal reserve that will be due and payable at the contracts expiration. The aggregate premium paid to the insurance company does not include any amounts related to this terminal reserve. These liabilities are reported in the accompanying financial statements at their present value of approximately $3,457,000 at September 30, 2002.

Changes in the balances of claims liabilities during fiscal 2002 and 2001 were as follows (amounts in thousands):

Fiscal 2002	October 1	Claims and Changes In Estimates	Claim Payments	September 30
APFA	$1,694	$ 29	$ (155)	$1,568
Workers' Compensation	3,402	3,491	(3,004)	3,889
Group Health	4,499	12,547	(13,589)	3,457
	$9,595	$16,067	($16,748)	$8,914
Fiscal 2001				
APFA	$1,651	$ 656	$ (613)	$1,694
Workers' Compensation	3,409	2,241	(2,248)	3,402
Group Health	2,579	13,040	(11,120)	4,499
	$7,639	$15,937	($13,981)	$9,595

12. LEASE AGREEMENTS

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel, commercial and office complex and business park. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, and throughout the remainder of the lease term, annual rental payments shall be the greater of 0.5 percent of gross revenues or an aggregate of $750,000. Total rental payments received in 2002 were approximately $207,000.

13. DISPUTE SETTLEMENT AGREEMENT

On April 27, 1999, the ASFDA and the City entered into a Dispute Settlement Agreement and Agreement Not To Pursue Claim (the "Dispute Settlement Agreement") with the Texas Rangers baseball club (the "Rangers"). The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the ASFDA and the City alleged should be paid by the Rangers (the "Claim"). The Dispute Settlement Agreement requires the Rangers to make annual installment payments, without interest, to the Authority on or before December 31 of each year as follows:

Year	Amount
2002 to 2003	$ 500,000
2004 to 2009	800,000
2010	900,000
2011 to 2024	1,000,000

The payment in 2024 is due on or before March 1. By entering into this agreement, the ASFDA and the City agreed to release and discharge the Rangers from the Claim.

14. CAPITAL LEASE

A lease agreement was executed on June 23, 1992 between the Texas Rangers, Ltd. (the Rangers) and the Arlington Sports Facilities Development Authority, Inc. for the Ballpark Complex Development (the Facility). The lease is a triple net lease to the Rangers, with the Rangers retaining all concession and signage rights. The Rangers agreed to pay a base rent of $2,000,000 per year for the 30-year term of the lease. An additional rent of $1,500,000 per year is to be paid as long as the Sales Tax bonds issued to pay the costs of the Project are outstanding. The Sales Tax bonds were retired in November 2001. Upon retirement or defeasance of the debt, the Rangers have the option to purchase the Facility, excluding the linear park, at a cost of $60,000,000, with full credit given for all base and additional rents paid, as well as up to $1,500,000 annual credit for maintenance costs paid on the Facility by the Rangers. If the purchase option is exercised, the Rangers are committed to play baseball in the City for ten additional years.

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers has been accounted for as a capital lease in the component unit, Arlington Sports Facilities Development Authority, Inc. Accordingly, a lease receivable has been established representing the future expected lease proceeds. As of September 30, 2002, the lease receivable balance was $43,634,721, with a corresponding deferred revenue balance.

Minimum future rentals is as follows:

September 30	
2003	$ 2,000,000
2004	2,000,000
2005	2,000,000
2006	2,000,000
2007	2,000,000
2008-2012	10,000,000
2013-2017	10,000,000
Thereafter	13,634,721
Minimum future lease rentals	$43,634,721

15. CONDENSED COMPONENT UNIT INFORMATION

The City includes five component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2002, for all discretely presented component units is as follows (amounts in thousands):

Condensed Statement of Net Assets

	Arlington Sports Facilities Development Authority, Inc. 2002	Nonmajor Discretely Presented Component Units 2002	Total Discretely Presented Component Units 2002
Current and other assets	$ 61,393	$ 4,311	$ 65,704
Capital assets	169,842	695	170,537
Total assets	231,235	5,006	236,241
Long-term liabilities outstanding	17,791	-	17,791
Other liabilities	43,750	1,068	44,818
Total liabilities	61,541	1,068	62,609
Net assets:			
Invested in capital assets, of related debt	152,733	695	153,428
Restricted	1,455	-	1,455
Unrestricted	15,506	3,243	18,749
Total net assets	$169,694	$ 3,938	$173,632

Condensed Statement of Activities

	Arlington Sports Facilities Development Authority, Inc. 2002	Nonmajor Discretely Presented Component Units 2002	Total Discretely Presented Component Units 2002
Expenses	$ 16,765	$25,549	$ 42,314
Program Revenues:			
Charges for services	2,213	2,552	4,765
Operating grants and contributions	-	22,893	22,893
Capital grants and contributions	-	47	47
Net Program (Expense) Revenue	(14,552)	(57)	(14,609)
Tax Revenues	3,432	-	3,432
Other NonTax General Revenues	225	125	350
Change in Net Assets	(10,895)	68	(10,827)
Net Assets, October 1	180,589	3,870	184,459
Net Assets, September 30	$169,694	$ 3,938	$173,632

16. SUBSEQUENT EVENTS

On February 15, 2003, the City authorized the issuance of $11,720,000 in Water and Wastewater System Revenue Refunding Bonds, Series 2003, with interest rates ranging from 2.00 percent to 4.00 percent, and are scheduled to mature in varying amounts through 2015.

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2002
(AMOUNTS EXPRESSED IN THOUSANDS)

	Budgeted Amounts		Actual Amounts			
	Original	**Final**	**Actual**	**Adjustments to Budgetary Basis**	**Actual on Budgetary Basis**	**Variance with Final Budget-Positive (Negative)**
REVENUES						
Taxes	$ 94,861	$ 94,861	$ 90,848	$ -	$ 90,848	$ (4,013)
Licenses and permits	3,840	3,840	3,837	-	3,837	(3)
Utility franchise fees	29,517	29,517	29,635	-	29,635	118
Fines and forfeitures	6,296	6,296	6,787	-	6,787	491
Leases, rents and concessions	3,491	3,491	3,548	-	3,548	57
Service charges	19,588	19,588	5,648	13,071	18,719	(869)
Interest revenue	897	897	824	100	924	27
Other revenue	-	-	1,350	(1,350)	-	-
Net increase (decrease) in the fair value of inves	-	-	(21)	21	-	-
Total Revenues	158,490	158,490	142,456	11,842	154,298	(4,192)
EXPENDITURES						
Current-						
General government	34,595	34,595	27,431	7,068	34,499	96
Public safety	87,405	87,405	85,017	1,080	86,097	1,308
Public works	24,079	24,079	17,826	5,170	22,996	1,083
Public health	2,044	2,044	1,931	-	1,931	113
Parks and recreation	13,781	13,781	12,111	789	12,900	881
Total Expenditures	161,904	161,904	144,316	14,107	158,423	3,481
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(3,414)	(3,414)	(1,860)	(2,265)	(4,125)	(711)
OTHER FINANCING SOURCES (USES)						
Transfers in	6,353	6,353	5,332	955	6,287	(66)
Transfers out	(3,028)	(3,028)	(4,426)	1,359	(3,067)	(39)
Total Other Financing Sources (Uses)	3,325	3,325	906	2,314	3,220	(105)
Net Change In Fund Balances	(89)	(89)	(954)	49	(905)	(816)
Fund Balances, October 1	19,659	19,659	21,661	-	21,661	2,002
Fund Balances, September 30	$ 19,570	$ 19,570	$ 20,707	$ 49	$ 20,756	$ 1,186

See accompanying notes to required supplementary information.

CITY OF ARLINGTON, TEXAS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2002

Budgetary Data

The City Council adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and certain Special Revenue Funds (Park Performance, Convention and Event Services and Street Maintenance). All unencumbered appropriations lapse at fiscal year-end except certain of those of the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and certain Special Revenue Funds are prepared on the modified accrual basis except for encumbrances which are treated as budgeted expenditures. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. The statements comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the departmental level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During fiscal year 2002, the City Council did not approve any additional budgetary expenditure amendments for the General Fund.

The Budgetary Comparison Schedule, included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the following exceptions:

> The portion of ad valorem tax revenues in the General Fund from "rolled back" tax payments (taxes, up to five years back, on properties previously taxed at special use exemption values and currently changed to full values) are excluded from the budgetary basis tax revenues and from the general governmental expenditures.
>
> The General Fund encumbrances are added to the actual expenditures for budgetary comparison.

Budgetary data for the Special Revenue Funds and Capital Projects Funds have not been presented in the accompanying required supplemental information. Receipts of revenues are not estimable for all Special Revenue Funds and are not budgeted. Expenditures are limited to total revenues over the life of the funds. Capital Projects Funds are budgeted over the life of the respective project and are reviewed and approved by the City Council in an annual Capital Improvements Program plan.

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TMRS FUNDING
LAST THREE FISCAL YEARS (Unaudited)

For 2002, the City's annual pension cost of $14,098,512 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2001, actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an (a) 8 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) no inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

The following table discloses three-year historical trend information relating to the TMRS plan.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contribution	Net Pension Obligation
9/30/00	$12,733,270	100%	-
9/30/01	12,884,047	100%	-
9/30/02	14,098,512	100%	-

The following table discloses certain three-year historical trend information presenting the City's progress in accumulating sufficient assets to pay benefits when due (amounts expressed in thousands, except for percentages):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Percent	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/99	$252,879	312,412	$59,533	80.9%	$ 92,137	64.6%
12/31/00	267,933	333,403	65,469	80.4%	100,657	65.0%
12/31/01	290,670	363,021	72,351	80.1%	110,577	65.4%

CITY OF ARLINGTON, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION TRUST-PART-TIME DEFERRED INCOME TRUST PLAN
LAST THREE FISCAL YEARS (Unaudited)

The actuarial assumptions used in the July 1, 2000, actuarial valuation included were (a) 6.50 percent investment return, (b) no inflation rate adjustment, and (c) 4.50 percent salary increases. The accrual basis of accounting is utilized by the PDIT fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. The actuarial accrued liability was determined using the entry age normal cost method.

The following table discloses certain three-year historical trend information:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funded Percent	Excess Funded AAL (EAAL)	Annual Covered Payroll	EAAL as a Percentage of Covered Payroll
7/1/00	$808,509	$591,521	136.7%	$216,988	$2,500,507	8.7%
7/1/01	903,407	723,198	124.9%	180,209	2,443,735	7.4%
7/1/02	891,460	834,006	106.9%	57,454	2,415,348	2.4%

* Valuation results for 7/1/2001 were estimated based on 1/1/2000 and 7/1/2002 valuations.