OFFICIAL STATEMENT

NEW ISSUE/Book-Entry Only

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

In the opinion of Bond Counsel interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds 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.

$24,155,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Permanent Improvement Bonds
Series 2004

Dated: July 15, 2004 **Due: August 15, as shown below**

The $24,155,000 City of Arlington, Texas, Permanent Improvement Bonds, Series 2004 (the "Bonds") 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 Bonds. 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 Bonds purchased. Interest on the Bonds will be payable on February 15 and August 15 of each year, commencing February 15, 2005.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the bonds.

Ambac

Maturity Schedule

Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[(1)]	Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[(1)]
2005	$1,210,000	4.000%	1.18%	041790 Q58	2015	$1,210,000	4.125%	3.93%	041790 R73
2006	1,210,000	4.000	1.77	041790 Q66	2016	1,205,000	4.250	4.04	041790 R81
2007	1,210,000	4.000	2.19	041790 Q74	2017	1,205,000	4.250	4.12	041790 R99
2008	1,210,000	4.000	2.55	041790 Q82	2018	1,205,000	4.375	4.22	041790 S23
2009	1,210,000	4.000	2.84	041790 Q90	2019	1,205,000	4.500	4.28	041790 S31
2010	1,210,000	4.000	3.09	041790 R24	2020	1,205,000	4.500	4.36	041790 S49
2011	1,210,000	4.000	3.31	041790 R32	2021	1,205,000	4.500	4.49	041790 S56
2012	1,210,000	4.000	3.50	041790 R40	2022	1,205,000	4.625	4.59	041790 S64
2013	1,210,000	4.000	3.70	041790 R57	2023	1,205,000	4.625	4.85	041790 S72
2014	1,210,000	4.000	3.78	041790 R65	2024	1,205,000	4.625	4.93	041790 S80

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 and 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 27, 2004.

CITY OF ARLINGTON

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Robert Cluck, M.D. Mayor	5 years (1)	May, 2005	Doctor
Wayne Ogle Mayor Pro Tem	9 years	May, 2005	Minister
Joe Bruner Council member	4 years	May, 2006	Certified Public Accountant
Sheri Capehart Council member	3 years (2)	May, 2006	Computer Security Analyst/Retired
Kathryn Wilemon Council member	1 year	May, 2005	Community Volunteer
Lana Wolff Council member	1 year	May, 2005	Community Volunteer
Steve McCollum Council member	4 years	May, 2006	Small Business Owner
Ron Wright Council member	4 years	May, 2006	Congressman's District Director
Gene Patrick Council member	1 year	May, 2005	Small Business Owner

(1) Served as Councilmember from May 1999 to May 2003.
(2) Non-consecutive service. Served as Councilmember from May 2000 to May 2003. Re-elected May 2004.

APPOINTED OFFICIALS

Name	Position	Years of employment with City
Charles R. Kiefer	City Manager	26
Gayle Lacerda	Deputy City Manager - Community Resources	14 (1)
Charles F. Anderson	Deputy City Manager - Administration	32
Fred Greene	Interim Deputy City Manager – Citizen Services	- (2)
Donna Swarb	Chief Financial Officer	5
Jay Doegey	City Attorney	18
Barbara Heptig	City Secretary	7

(1) Non-consecutive service.
(2) Served with the City from 1985-95. He is serving as a temporary contract employee.

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

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document constitutes an official statement of the City, with respect to the Bonds that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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.

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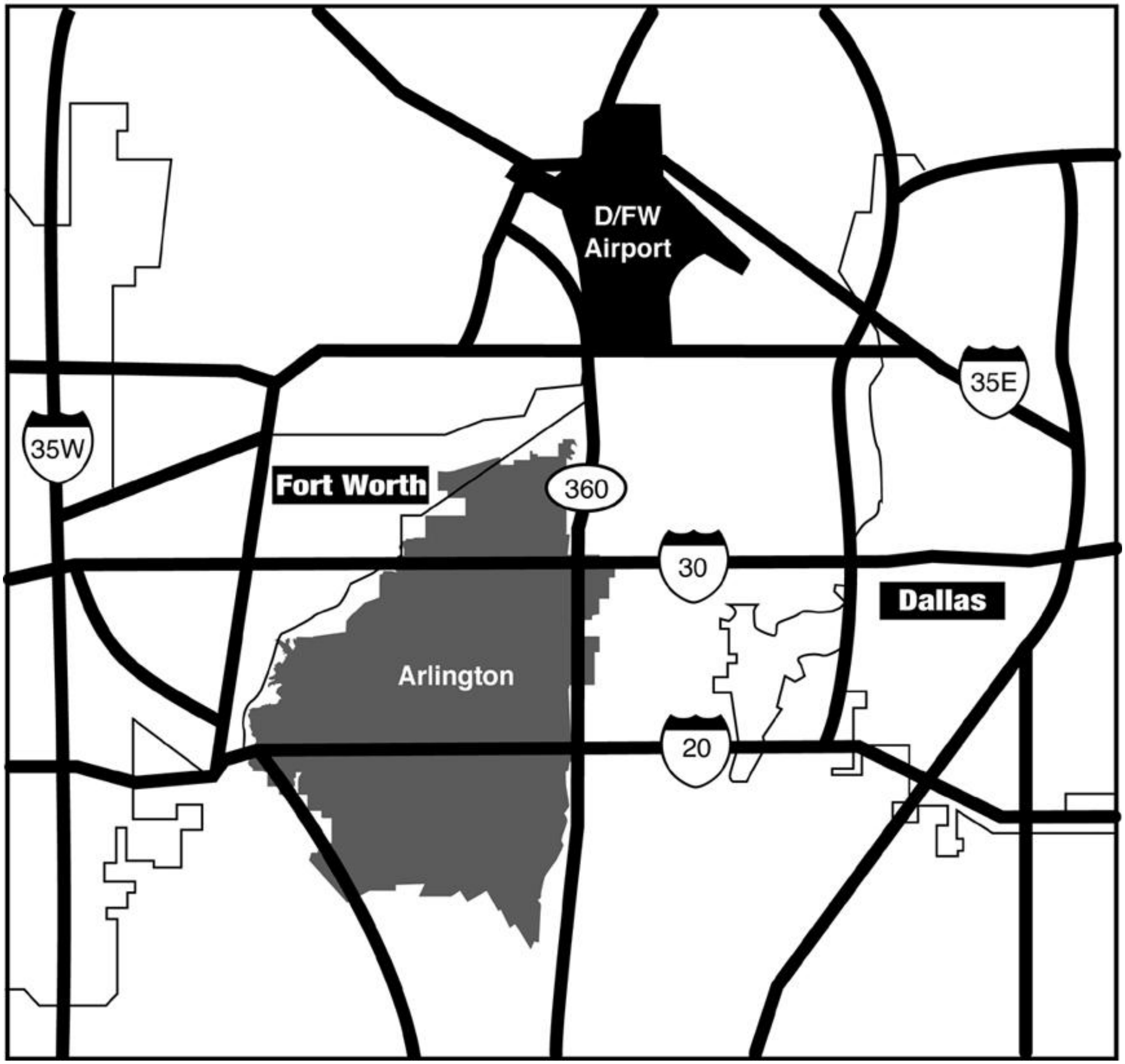
Dallas/Fort Worth/Arlington Metropolitan Area



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 351,719 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 Bonds

$24,155,000 City of Arlington, Texas, Permanent Improvement Bonds, Series 2004 (the "Bonds"), dated July 15, 2004, maturing on the dates set forth on the cover of this Official Statement. Interest will be paid on February 15, 2005, and on each August 15 and February 15 thereafter until the earlier of maturity or prior redemption.

The Bonds 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 Bonds are being used to make various capital improvements and to pay costs related to the issuance of the Bonds. See "Authorized Permanent Improvement Bonds and Use of Proceeds" under "Section Two: Authority for Issuance."

Security

The Bonds, 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.

Additionally, payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "Bond Insurance" herein.

Optional Redemption

Bonds maturing on and after August 15, 2015, are subject to redemption prior to maturity at par plus accrued interest, at the option of the City, on August 15, 2014, or on any date thereafter as described more fully in Section Two herein "Optional Redemption."

Legal Matters

The City will furnish the initial purchaser of the Bonds a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, 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 Bonds 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 Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Bonds 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 Bonds, including the Bond initially delivered to the initial purchaser or purchasers of such Bonds.

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 Bonds 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 Bonds are contingent on the sale and delivery of the Bonds. Bond Counsel's fee for services rendered with respect to the sale of the Bonds is paid on a “per bond” basis.

The City will furnish to the initial purchaser of the Bonds a certificate, dated as of the date of delivery of the Bonds, 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 Bonds, or which affect the provisions made for their payments or security or in any manner question the validity of the Bonds.

Litigation

The City is involved in a lawsuit in which the plaintiff alleges the City has violated the plaintiff’s rights under the Family and Medical Leave Act (“FMLA”) by denying him a two day leave and for discriminating against him by terminating his employment. A jury found the City liable and the trial court entered judgment ordering payment to the plaintiff of damages totaling $1,010,261.59 including actual damages, liquidated damages, attorney’s fees and court costs plus post-judgment interest. The City believes the plaintiff’s case is not covered by FMLA and intends to appeal the case. In the event the City is unsuccessful on appeal, the City’s Self-Insurance and Risk Management Program ordinance provides coverage on approximately $1,000,000 of the judgment less the City’s defense costs. The City anticipates the defense costs will not exceed One Hundred Fifty Thousand Dollars through appeal of the matter. The portion of this loss not covered by the Self-Insurance Program will have to be paid from other unallocated funds.

Various other 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 Bonds are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser or purchasers of the Bonds, subject to the approval of the Attorney General of Texas and Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel. Delivery of the Bonds is expected on or about August 26, 2004.

Paying Agent/Registrar

Payments of principal and interest will be payable by Wachovia Bank, National Association (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 Bonds, as described in Section Two herein "Book-Entry-Only System."

Ratings

Fitch Ratings, One State Street Plaza, New York, New York, 10004, Moody’s Investors Service, Inc., 99 Church Street, New York, New York, 10007, and Standard & Poor's Rating Services, A Division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York, 10041 have given the Bonds the rating of “AAA”, “Aaa” and “AAA” respectively with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Ambac Assurance Corporation. The underlying rating for the outstanding tax-supporter debt of the City is rated 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 either or both of such rating agencies if, in the judgment of either or both, 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 Bonds.

Registration and Qualification

The sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon exemptions provided therein; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities act of any jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds 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 Bonds 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

After requesting competitive bids for the Bonds, the City accepted the bid resulting in the lowest true interest cost, which was tendered by Merrill Lynch & Co. (the “Underwriter”), to purchase the Bonds bearing the interest rates shown under “Maturity Schedule,” at a price of par value plus a premium of $79,649.44 and accrued interest to the date of delivery, which resulted in a true interest cost of 4.279521 percent. The true interest cost is a percentage rate which, when used to compute the total present value as of the date of the Bonds (July 15, 2004) of all debt service payments on the Bonds on the basis of semiannual compounding, produces an amount equal to the sum of par value of the Bonds plus any bond premium.

The City has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds, and has no control over trading of the Bonds 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 Bonds. 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 Bonds, the City will furnish a certificate dated the date of delivery of the Bonds, 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 Bonds 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 - Financial Section) has been reported on by the City's independent auditors.

BOND INSURANCE

The Ambac Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the bonds which shall become due for payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes due for payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the paying agent. The insurance will extend for the term of the bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event that Wachovia Bank, NA has notice that any payment of principal of or interest on a bond which has become due for payment and which is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. Payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. Payment of any redemption, prepayment or acceleration premium.

3. Nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the bond, appurtenant coupon, if any, or right to payment of principal or interest on such bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Company

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$7,670,000,000** (unaudited) and statutory capital of approximately **$4,683,000,000** (unaudited) as of **March 31, 2004.** Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of a bond by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such bond and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the bond.

Ambac Assurance makes no representation regarding the bonds or the advisability of investing in the bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;

2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004; and

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information".**

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. 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." The City will update and provide this information within six months after the end of each fiscal year ending in or after 2004. 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 Bonds, if such event is material to a decision to purchase or sell Bonds: (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 Bonds; (7) modifications to rights of holders of the Bonds; (8) obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds 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 holders of Bonds only if the holders 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 Bonds 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 holders of Bonds 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 Bonds 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 holders of a majority in aggregate principal amount of the outstanding Bonds 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 holders and Beneficial Owners of the Bonds. 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 has substantially complied with its prior undertakings.

ADDITIONAL INFORMATION

For additional information regarding this document please contact Mr. David Balsamo, Cash and Debt Administrator, City of Arlington, Texas, at (817) 459-6264.

SECTION TWO: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated July 15, 2004, and mature on the dates and bear interest at the per annum rates set forth on the cover of this Official Statement. Interest is payable on February 15, 2005, 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 Bonds, when issued, are payable from and secured by a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

Additionally, payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "Section One: Bond Insurance."

Tax Exemption

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds are not "private activity bonds" under the Code, and interest on the Bonds 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 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of the proceeds of the Bonds and source of repayment thereof, limitations on the investment of proceeds of the Bonds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds of the Bonds 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 Bonds 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 Bonds for federal income tax purposes and, in addition, will rely on representations by the City and Purchaser with respect to matters solely within the knowledge of the City and the Underwriter, 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 Bonds 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 Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds 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 Bonds, received or accrued during the year.

Except as stated above, and as stated below in "Tax Accounting Treatment of Original Issue Discount Bonds," 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 Bonds.

Prospective purchasers of the Bonds 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 Bonds. 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 upon 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 is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit on the Bonds. 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 Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the principal amount thereof (the “Original Issue Discount Bonds”). 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 Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the initial public offering of the Bonds; 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 Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bonds prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond 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 Bond 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 Bonds under the caption "Tax Exemption" generally applies, except as otherwise provided below, to original issue discount on an Original Issue Discount Bond held by an owner who purchased such Bond at the initial offering price in the initial public offering of the Bonds, 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 Purchaser, that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds 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 Bonds will be offered and sold in accordance with such assumptions. Certain of the representations of the Underwriter, upon which Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts the Underwriter had no reason to believe were not correct.

Under existing law, the original issue discount on each Original Issue Discount Bond 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 Bonds and ratably within each six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond 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 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 Bonds.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds 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 Bonds 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 Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Book-Entry-Only System - General

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

DTC, the world's largest 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 Bonds 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 Bonds 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the 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], the Paying Agent/Registrar, or the 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 the City or the 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 Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Obligation 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, Bond 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 Bonds

The opinion of Bond Counsel will state, among other things, that the Bonds 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 Bonds 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 Bonds:

> "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 Bonds 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 Bonds, being (i) the interest on the Bonds, 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 Bonds when and as due and payable in accordance with their terms and this Ordinance."

Optional Redemption

The City has reserved the right and option to redeem the Bonds maturing on and after August 15, 2015, in whole or in part, on August 15, 2014, or on any date thereafter, at par plus accrued interest to the date fixed for redemption. If less than all the Bonds 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 any redemption date, the Paying Agent/Registrar shall cause a notice of redemption to be sent by United States mail, first class postage prepaid, to each Owner of a Bond 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, the redemption price, the place at which the Bonds are to be redeemed and identify the Bonds or portions thereof to be redeemed. The notice of redemption shall also state that the Bonds so called for redemption shall cease to bear interest after the redemption date.

Redemption Procedures While Bonds Held by DTC

If the Bonds are being held by DTC under the book-entry system and less than all of such Bonds 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 Bonds are no longer in the book-entry form at DTC, if less than all the Bonds 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 Bonds or portions thereof to be redeemed.

Owners' Remedies

The Ordinance provides that while any of the Bonds 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 Bonds 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 Bonds 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 Bonds. 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 Bonds, 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 Bonds will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Bonds. Principal and semiannual interest on the Bonds 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 Bonds, then "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Bonds which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Bonds will be payable to the Owner at maturity or prior redemption upon presentation to the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owners as shown on the records of the Paying Agent/Registrar on the last day of the month next 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 Bonds 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 Bonds and a successor securities depository is not appointed by the City, the Bonds 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 Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Bond in accordance with the provisions of the Ordinance. Such new Bonds 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 Bond 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 Bonds. 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 Bond or portion thereof, called for redemption prior to maturity, within 30 days prior to the date fixed for redemption.

AUTHORITY FOR ISSUANCE

The Bonds are issued pursuant to authority granted by the resident qualified voters at elections held within the City on January 18, 1997, January 16, 1999, February 1, 2003 and November 4, 2003, the Constitution and the general laws of the State of Texas, particularly Chapter 1331, Texas Government Code as amended, and to the Ordinance passed by the City Council on the date of the sale of the Bonds, 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**	**The Bonds**	**Remaining to be Issued**
1993 Library Mobile and Portable Facilities	$ 570	$ -	$ -	$ 570
1997 Park and Recreation	37,860	31,585	3,815	2,460
1999 Street and Transportation	85,520	68,850	15,590	1,080
1999 Library	3,725	3,000	725	-
2003 Animal Control	2,665	325	2,340	-
2003 Fire	4,935	1,750	500	2,685
2003 Library	2,435	-	1,185	1,250
2003 Police	10,935	2,270	-	8,665
2003 Erosion Control	1,900	-	-	1,900
2003 Street Improvements	83,635	-	-	83,635
2003 Traffic Management	400	-	-	400
Total	$234,580	$107,780	$24,155	$102,645

No Litigation Certificate

The City will furnish to the respective initial purchaser of the Bonds a certificate, dated as of the date of delivery of the Bonds, 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 Bonds, or which affects the provisions made for their payment or security, or in any manner questions the validity of the Bonds.

LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (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 Bonds 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 Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such obligations 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 Bonds 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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

SECTION THREE: THE CITY OF ARLINGTON, TEXAS

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 the second and fourth Tuesday of each month. 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 - 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.

Deputy City Manager - Mr. Charles F. Anderson - with the City since January 1972, he received his B.A. in Chemistry from Texas Wesleyan University. Prior to being appointed Deputy City Manager, he served as the Director of Water Utilities. Prior to joining the City of Arlington he worked for General Dynamics and served in the U.S. Army.

Interim Deputy City Manager – Mr. Fred Greene – is serving in the position as a temporary contract employee. He has served in various capacities for the Cities of Sherman, Garland and Arlington from 1961 to 1995.

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 five branch libraries, 84 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 five departments. The City functions covered by the Community Resources Group include Public Works, Water Utilities, Planning and Development Services, Parks and Recreation and Convention and Event Services.

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 4,529 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.

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.

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 and Administrative Services as well as the Internal Audit Division.

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 which collects court fines, sets trial dockets, and maintains the Municipal Court records.

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, building construction management, and real estate services. It also has responsibility for 9•1•1 dispatch services and building maintenance operations.

The Administrative Services Department works with news media, issues publications, and implements programs to educate and inform citizens about City policies and programs. It also oversees the City Secretary's Office which transcribes and maintains official City records, minutes and ordinances, and conducts City elections.

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.

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 740 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 150,352 calls for service in fiscal year 2003. 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 26,381 calls for service in fiscal year 2003. The 302 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 five branch libraries. Circulation exceeds 1.5 million items annually.

The Neighborhood Services Department is responsible for enhancing the livability of neighborhoods through three Divisions. 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 2003 estimated population for the City of Arlington is 351,719. 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
2003	351,719	1.9	290,809,777	1.11

(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

	2002	2001	2000
Tarrant County	$31,307	$31,232	$30,143
Texas	29,039	28,472	27,992
United States	30,906	30,413	29,760

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 six alternative schools. Currently, a professional staff of approximately 4,066 serves a peak enrollment of 62,345 students.

The University of Texas at Arlington, founded in 1895, features a current enrollment of 24,979 and offers 198 degree programs at the baccalaureate, master and doctoral levels. The physical plant, located on a 394 acre campus, includes 107 University 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 8,593 students. The college has 301 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
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
2004	62,345	0.39

Source: Arlington Independent School District.

Employment

2004 Arlington Major Employers

Name	Type of Business	Number of Employees
Arlington Independent School District	Public Education	7,831
University of Texas at Arlington	Higher Education	4,912
Six Flags Over Texas	Amusement Park	3,200 (1)
Americredit	Finance	3,000
General Motors	Automobile Assembly	2,930
City of Arlington	Municipality	2,328
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 2003, the City's unemployment rate averaged 5.7 percent as compared to the U.S. rate of 6.0 percent and the Texas rate, of 6.8 percent.

Unemployment Rate
Annual Average Rates
1999 to 2003

	2003	2002	2001	2000	1999
Arlington	5.7%	5.4%	3.7%	2.7%	2.7%
Texas	6.8	6.3	4.8	4.2	4.6
United States............................	6.0	5.8	4.7	4.0	4.2

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 6 in-store branches in the City.

Building Permits

During the calendar year 2003, the City issued 5,348 building permits with a total value of $395,904,778. Presented below is a table covering building permit activity for the last three calendar years:

	2003		2002		2001	
	Number	Value (000's)	Number	Value (000's)	Number	Value (000's)
Residence	1,318	$186,524	1,753	$233,542	2,490	$260,026
Duplex	18	2,429	16	1,631	9	874
(No. of Units)	(36)	-	(32)	-	(18)	-
Apartments	16	18,170	12	13,240	22	14,886
(No. of Units)	(250)	-	(285)	-	(285)	-
Commercial	334	84,106	414	121,161	445	119,092
Institutional	64	45,483	40	80,560	35	10,005
Alterations and Additions	114	23,343	190	34,373	224	11,054
Signs	868	1,617	1,082	2,103	1,168	2,338
Miscellaneous	2,616	34,233	2,817	17,507	3,534	34,166
Total	5,348	$395,905	6,324	$504,117	7,927	$452,441

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 of the City. 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) obligations 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.

Effective September 1, 2003, governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities lender or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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, 2004, 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	54.2%
Federal Agencies	31.2
Statewide Pool	12.4
Money Market Account	2.2
Totals	100.0%

As of March 31, 2004, the weighted average maturity of the City's operating portfolio was 163 days and the market value of the operating portfolio was 100.31 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 1, 2004:

Total Outstanding Tax-Supported Debt	$297,755,000
The Bonds, Series 2004	24,155,000
Total Tax-Supported Debt	$321,910,000
Less Self-Supporting Debt [1]	14,027,460
Net Tax-Supported Debt	$307,882,540

[1] 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 1994-2003

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
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
2003	351,719	15,018,724,599	283,792,540	807	1.89

(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 prior to each fiscal 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	$127,115,000	39.5%
10 years	221,670,000	68.9
15 years	292,395,000	90.8
20 years	321,910,000	100.0

(1) As of July 15, 2004, including the Bonds.

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 Bonds[2] Principal	Interest	Total	Total Debt Service
2004	$ 28,205,000	$ 7,305,097	$ 35,510,097	$ 0	$ 0	$ 0	$ 35,510,097
2005	26,820,000	13,228,347	40,048,347	1,210,000	908,142	2,118,142	42,166,489
2006	24,245,000	12,009,158	36,254,158	1,210,000	970,525	2,180,525	38,434,683
2007	22,010,000	10,914,566	32,924,566	1,210,000	922,125	2,132,125	35,056,691
2008	20,995,000	9,879,146	30,874,146	1,210,000	873,725	2,083,725	32,957,871
2009	19,110,000	8,824,579	27,934,579	1,210,000	825,325	2,035,325	29,969,904
2010	17,770,000	7,883,972	25,653,972	1,210,000	776,925	1,986,925	27,640,897
2011	17,805,000	6,994,957	24,799,957	1,210,000	728,525	1,938,525	26,738,482
2012	17,280,000	6,103,506	23,383,506	1,210,000	680,125	1,890,125	25,273,631
2013	16,540,000	5,224,077	21,764,077	1,210,000	631,725	1,841,725	23,605,802
2014	15,565,000	4,396,290	19,961,290	1,210,000	583,325	1,793,325	21,754,615
2015	14,280,000	3,609,912	17,889,912	1,210,000	534,925	1,744,925	19,634,837
2016	13,145,000	2,899,343	16,044,343	1,205,000	485,013	1,690,013	17,734,356
2017	11,905,000	2,238,791	14,143,791	1,205,000	433,800	1,638,800	15,782,591
2018	9,795,000	1,637,127	11,432,127	1,205,000	382,588	1,587,588	13,019,715
2019	8,545,000	1,136,608	9,681,608	1,205,000	329,868	1,534,868	11,216,476
2020	5,805,000	697,397	6,502,397	1,205,000	275,644	1,480,644	7,983,041
2021	4,165,000	398,406	4,563,406	1,205,000	221,419	1,426,419	5,989,825
2022	2,480,000	188,125	2,668,125	1,205,000	167,193	1,372,193	4,040,318
2023	1,290,000	64,313	1,354,313	1,205,000	111,463	1,316,463	2,670,776
2024	0	0	0	1,205,000	55,731	1,260,731	1,260,731
	$297,755,000	$105,633,717	$403,388,717	$24,155,000	$10,898,111	$35,053,111	$438,441,828

(1) As of July 15, 2004, includes self-supporting debt.
(2) FY 2004 is net of accrued interest ($116,044) and premium ($79,649).

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
2004	$ 28,205,000	$ 7,305,097	$ 1,089,006	$ 397,437	$ 34,023,654
2005	28,030,000	14,136,489	1,103,454	732,625	40,330,410
2006	25,455,000	12,979,683	610,000	568,121	37,256,562
2007	23,220,000	11,836,691	640,000	541,281	33,875,410
2008	22,205,000	10,752,871	670,000	512,481	31,775,390
2009	20,320,000	9,649,904	700,000	482,331	28,787,573
2010	18,980,000	8,660,897	735,000	450,831	26,455,066
2011	19,015,000	7,723,482	770,000	416,838	25,551,644
2012	18,490,000	6,783,631	805,000	380,262	24,088,369
2013	17,750,000	5,855,802	845,000	342,025	22,418,777
2014	16,775,000	4,979,615	890,000	301,888	20,562,727
2015	15,490,000	4,144,837	935,000	258,500	18,441,337
2016	14,350,000	3,384,356	980,000	211,750	16,542,606
2017	13,110,000	2,672,591	1,030,000	162,750	14,589,841
2018	11,000,000	2,019,715	1,085,000	111,250	11,823,465
2019	9,750,000	1,466,476	1,140,000	57,000	10,019,476
2020	7,010,000	973,041	0	0	7,983,041
2021	5,370,000	619,825	0	0	5,989,825
2022	3,685,000	355,318	0	0	4,040,318
2023	2,495,000	175,776	0	0	2,670,776
2024	1,205,000	55,731	0	0	1,260,731
	$321,910,000	$116,531,828	$14,027,460	$5,927,370	$418,486,998

(1) As of July 15, 2004, including the $24,155,000 Permanent Improvement Bonds, Series 2004.

(2) Includes $1,047,460 of the Permanent Improvement Refunding Bonds, Series 1993 (the "Series 1993 Refunding Bonds") which has historically been paid with hotel occupancy tax revenues and $12,980,000 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 July 1, 2004, in the aggregate principal amount of $12,980,000 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 $1,274,699 of the total debt service on the Series 1993 Refunding Bonds from July 1, 2004 through fiscal year 2005.

In the fiscal year 2004 Budget, the City estimated that $4,000,000 of hotel occupancy tax will be received by the City during fiscal year 2004 which amount exceeds the $1,883,878 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 2004. As shown in the section hereof entitled "Tax Data - Hotel Occupancy Tax Receipts," hotel occupancy tax revenues in the fiscal years 1999 through 2003 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, 2004 including the $24,155,000 Permanent Improvement Bonds, Series 2004, assumes 98 percent collection of ad valorem taxes levied against the City's 2004 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 (2005/2024)	$19,223,167
A tax rate of $.1306 per $100 assessed valuation produces	19,223,637
Average Annual Requirement (2005/2014)	29,110,193
A tax rate of $.1978 per $100 assessed valuation produces	29,112,897
Maximum Annual Requirement (2005)	40,330,410
A tax rate of $.2740 per $100 assessed valuation produces	40,331,223

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 obligations 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 Bonds 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]	$307,883	9-30-03	100.00 %	$ 307,883
Arlington Independent School District	578,718	8-31-03	78.16	452,326
Tarrant County	151,900	9-30-03	17.79	27,023
Tarrant County Junior College District	73,779	8-31-03	17.79	13,125
Tarrant County Hospital District	42,750	9-30-03	17.79	7,605
Kennedale Independent School District	15,220	8-31-03	20.91	3,183
Mansfield Independent School District	344,255	8-31-03	11.66	40,140
Hurst-Euless-Bedford I.S.D.	238,206	8-31-03	3.90	9,290
Total Direct and Overlapping Debt [4]				$860,575
Overlapping debt as a percent of 2004 assessed value		5.7%		
Overlapping debt per capita		$2,447		
Per capita overlapping debt as a percent of 2002 County per capita personal income		7.8%		

[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.

TAX-SUPPORTED 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 Capital Improvement Program, prepared annually, is primarily driven by recent bond election results. The City's most recent permanent improvement bond election was held on November 4, 2003. Two propositions were on the ballot totaling $84,035,000 were approved by the voters. The two approved propositions were street and transportation improvements ($83,635,000) and traffic management cameras ($400,000). Combined with the authorized but unissued bonds from prior elections, the City will have $102,645,000 in unissued permanent improvement bonding authority after the issuance of the bonds.

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 2004 is budgeted at $26,955,000. The projects include $15,590,000 for Streets and Transportation improvements, $4,215,000 for Park and Recreation improvements, $2,400,000 for Technology System improvements, $2,340,000 for Animal Shelter improvements, $1,910,000 for Library improvements, and $500,000 for Fire facilities. The Bonds will finance $24,155,000 of the FY 2004 CIP. The $2,400,000 for technology system improvements and $400,000 of park improvements, scheduled for a fiscal year 2004 certificates of obligation sale, has been delayed.

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

Sources	Estimated Total Costs	Total Financing To Date	Current Issue	Total Amount Remaining	Percent of Total Amount Remaining
General Obligation Bonds	$234,580	$107,780	$24,155	$102,645	100.0%

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

Uses	Estimated Total Costs	Financing To Date	Current Issue	Total Amount Remaining	Percent of Total Amount Remaining
Library	$ 6,730	$ 3,000	$ 1,910	$ 1,820	1.8 %
Parks and Recreation	37,860	31,585	3,815	2,460	2.4
Streets, Storm Drainage and Transportation	169,155	68,850	15,590	84,715	82.5
Police	10,935	2,270	-	8,665	8.4
Fire	4,935	1,750	500	2,685	2.6
Animal Control	2,665	325	2,340	-	-
Erosion Control	1,900	-	-	1,900	1.9
Traffic Mgmt. Cameras	400	-	-	400	0.4
Total	$234,580	$107,780	$24,155	$102,645	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 for 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. The City has been awarded a Certificate of Excellence for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 2003. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2003.

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):

The basic financial statements are prepared in conformity with GASB Statement No. 34 (Statement No. 34) which requires the 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 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, the government-wide statement of activities reflects depreciation expenses on the City’s capital assets, including infrastructure.

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 for governmental funds. The accrual basis of accounting and the economic resources measurement focus 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, Capital Projects Funds and Debt Service Funds 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. 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 nonmajor 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 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. 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. The following component units have been blended with those of the 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. These are the Arlington Property Finance Authority, Inc., Thrift Savings Plan, Disability Income Plan and Part-Time Deferred Income Trust.

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 1999 to 2003 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)

	2003	2002	2001	2000	1999
Beginning Fund Balance	$20,707	$21,661[1]	$18,221	$19,095	$15,264
Revenues					
Ad Valorem Taxes	51,958	46,026	40,593	36,522	34,840
Sales Tax	38,695	41,173	44,436	43,384	39,130
Other Taxes	3,718	3,649	3,487	3,247	3,039
Franchise Fees	29,163	29,635	31,201	26,639	23,187
Service Charges	5,388	5,648	4,822	3,551	4,352
Interest	499	803	1,241	1,222	1,023
All Other	14,716	15,522	10,283	9,036	9,010
Total Revenues	144,137	142,456	136,063	123,601	114,581
Expenditures					
Total Expenditures................................	146,946	144,316	133,496	127,280	113,833
Net Revenues Over (Under) Expenditures	(2,809)	(1,860)	2,567	(3,679)	748
Operating Transfers	2,908	906	(1,129)	2,805	3,083
Ending Fund Balance	$20,806	$20,707	$19,659	$18,221	$19,095
....					

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

For the fiscal year ended September 30, 2003, the General Fund had revenues and transfers greater than expenditures by $99,000, or 0.07 percent of General Fund revenues, leaving a General Fund balance at September 30, 2003, of $20,806,000. The following table presents a comparison of the City's General Fund balance for fiscal years 1999 to 2003.

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

	2003	2002	2001	2000	1999
General Fund Balance:					
Reserved for					
Encumbrances	$ 656	$ 1,526	$ 1,379	$ 1,129	$1,432
Inventory	112	279	336	489	508
Prepaids	67	48	24	39	32
Infrastructure Maintenance	-	-	-	350	1,930
Park Acquisition	-	-	-	-	500
Utility Rate Case	500	500	500	500	477
Special Transportation	-	-	-	-	816
Net Increase in Fair Value	-	-	-	-	-
Unreserved – Designated for					
Telecommunications	102	754	357	195	194
Working Capital	12,981	12,195	11,389	11,335	10,835
Subsequent Years' Expenditures	4,821	3,429	2,633	2,633	2,371
Arbitrage	320	824	-	-	-
Compensated absences	1,247	1,152	-	-	-
Undesignated	-	-	3,041	1,551	-
Total General Fund Balance	$20,806	$20,707	$19,659	$18,221	$19,095
General Fund Balance as a Percent of General Fund Expenditures	14.16%	14.35%	14.73%	14.32%	16.77%

Source: Fiscal Year 1999 to 2003 Comprehensive Annual Financial Reports.

DEBT SERVICE FUND BUDGET
Fiscal Year 2004
(amounts in thousands)

Beginning Fund Balance	$ 2,026
Property Tax Revenue	38,868
Interest Revenue	260
Transfers In [1]	3,799
Debt Service Expenditures	(42,918)
Estimated Ending Fund Balance	$ 2,035

[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 2004 Budget and Fiscal Year 2003 CAFR.

CURRENT OPERATING BUDGET

On September 23, 2003, the City Council adopted a total Budget for fiscal year 2004 with expenditures of $312,893,138. The adopted General Fund Budget reflects a property tax rate of $0.6480/$100.

The adopted Budget for fiscal year 2004 maintains core services levels and programs within tight financial constraints. An across-the-board compensation increase of 1.5 percent was included in the adopted budget. The overall value of taxable property in the City increased by 4.7 percent, from $14.344 billion in fiscal year 2003 to $15.019 billion in fiscal year 2004. The adopted Budget authorizes City government personnel of 2,328 full-time positions, a decrease of 52 positions from the fiscal year 2003 adopted budget.

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2004, as reported in the adopted Budget.

Estimated Revenues and Budgeted Expenditures
Fiscal Year 2004 Budget [1]
(amounts in thousands)

	Fiscal Year 2004 Budget	Percent of Fiscal Year 2003 Budget
REVENUES		
Property Taxes	$ 96,888	30.6%
Sales Tax	38,609	12.2
Other Taxes	1,480	0.5
Licenses and Permits	4,194	1.3
Utility Franchise Fees	30,288	9.6
Fines and Forfeitures	8,904	2.8
Leases and Rents	2,906	0.9
Services Charges	12,411	3.9
Miscellaneous Revenues	863	0.3
Water and Sewer Fund Revenues	90,567	28.6
Convention & Event Services Fund Revenues	6,364	2.0
Sanitary Landfill Fund	6,559	2.1
Street Maintenance Fund	9,678	3.0
Park Performance Fund	7,075	2.2
Total Revenues	$316,786	100.0%
EXPENDITURES		
General Government	$ 8,400	2.7%
Police	61,536	19.7
Fire	32,887	10.5
Neighborhood Services	4,697	1.5
Planning and Development Services	3,674	1.2
Parks and Recreation	13,517	4.3
Public Works	12,011	3.8
Library	5,550	1.8
Administrative and Support Services	18,396	6.0
Water and Sewer Fund	78,994	25.2
Convention & Event Services Fund	5,441	1.7
Sanitary Landfill Fund	4,838	1.5
Park Performance Fund	6,940	2.2
Street Maintenance Fund	13,093	4.2
Debt Service	42,919	13.7
Total Expenditures	$312,893	100.0%

[1] All funds combined, excludes interfund transfers.

Source: Fiscal Year 2004 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 in 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 2004, the Council levied a tax rate equal to $0.6480 per $100 assessed valuation of which $0.2601 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 FY 2004 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling $662,081,661.

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 2004 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 FY 2004 tax roll, which totaled $1,632,295,383, or 10.9 percent of the FY 2004 assessed valuation. In addition, $72,161,780 of value was reduced from the FY 2004 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 FY 2004 tax roll reveals a value loss of $2,878,152 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 FY 2004 tax roll is $381,607,734. A schedule of abated values for the 2004 Tax Roll by property owners is as follows:

Property Owner	2004 Abatement Value
General Motors	$ 230,488,069
Doskocil Manufacturing	24,982,298
Americredit 2001	20,332,640
National Semiconductor	17,539,287
Americredit	16,293,881
Chase Bank	14,293,935
Prologis/Mackie	11,093,733
Aetna	8,067,518
Providian	7,240,352
Primeco	7,231,719
Americredit Leases	5,005,618
Eden Road Investments	4,050,000
Office Depot	3,432,837
Primera	3,311,087
Lear Operations	2,990,993
Lamar Ltd.	2,491,402
Pepsico	1,693,605
Primera I	1,068,760
Totals	$381,607,734

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 FY 2004 tax roll was $128,821,912.

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 FY 2003 were $594,761.

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 FY 2004 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 is presently valued on the City's tax roll at 100 percent of its estimated market value as of January 1, 2003. The rate of taxation was determined and set by the Council based upon the January 1, 2003 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 fiscal year 2003, 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. Since October 1, 2002 ad valorem taxes for the City have been 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 5.1 percent per year over the last five years.

Principal Tax Revenue by Source
Fiscal Years 1999 to 2003
(amounts in thousands)

Fiscal Year	General Fund Ad Valorem Taxes	General Sales Tax	Franchise Fees	Hotel Occupancy Tax	Other Taxes	Total
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
2003	51,958	38,695	29,163	3,910	3,718	127,444

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 $1,858,932,957 for fiscal year 2004, are not included in the table. The Tarrant Appraisal District certified appraisal of taxable property less exemptions for fiscal year 2004 is $15,018,724,599. 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]
Fiscal Years 2000 to 2004

Fiscal 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	Percentage Change From Prior Year
2000	$ 9,466,395,471	6.30%	$1,948,750,826	(0.72)%	$11,415,146,297	5.03%
2001	10,344,385,656	9.27	2,090,767,102	7.29	12,435,152,758	8.94
2002	11,304,546,333	9.28	2,208,805,174	5.65	13,513,378,507	8.67
2003	12,099,808,133	7.03	2,244,193,172	1.60	14,344,001,305	6.15
2004	12,899,757,009	6.61	2,118,967,590	(0.56)	15,018,724,599	4.70

(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.

Source: City Finance Department.

Tax Rate Distribution
Fiscal Years 2000 to 2004

	2004	2003	2002	2001	2000
General Fund	$.3879	$.3879	$.3620	$.3429	$.3276
Debt Service Fund	.2601	.2601	.2720	.2911	.3064
Total	$.6480	$.6340	$.6340	$.6340	$.6340

Source: City Finance Department.

Collection Ratios
Fiscal Years 2000 to 2004

Fiscal Year	Net Assessed Valuation[1]	Tax Rate	Tax Levy	% Collections[2] Current Year	Prior Years	Year Ending
2000	$11,415,146,297	0.6380%	$72,828,633	98.48%	100.48%	9-30-00
2001	12,435,152,758	0.6340	78,838,868	98.56	100.82	9-30-01
2002	13,513,378,507	0.6340	85,674,820	98.30	99.92	9-30-02
2003	14,344,001,305	0.6340	90,940,968	98.15	99.89	9-30-03
2004	15,018,724,599	0.6480	97,321,335	96.08	97.13	9-30-04

(1) Net Assessed Valuation is the certified roll as of September of each year including minimum estimated value of property under protest.
(2) Prior year's collections include current year collections, prior year delinquent collections and all penalty and interest collections. Fiscal year 2004 collectors are as of May 31, 2004.

Source: City Finance Department.

Analysis of Delinquent Taxes
as of September 30, 2003

Fiscal Year	Tax Levy	Uncollected	Percentage of Levy
2003	$90,940,968	$1,440,107	1.58%
2002	85,674,820	631,820	.74
2001	78,838,868	353,914	.45
2000	72,828,633	284,421	.39
1998	69,341,578	220,626	.32
1998	64,954,721	221,243	.34
1997	62,105,100	203,505	.33
1996	58,374,990	126,577	.22
1995	54,305,297	146,833	.27
1994	53,777,666	164,324	.31
1993	53,433,856	174,920	.33
Prior to 1993	N/A	787,889	N/A
		$4,756,179	

Source: City Finance Department.

Tax Base Distribution
Fiscal Years 2000 to 2004

	2004	2003	2002	2001	2000
Residential	61.8%	59.5%	57.1%	56.6%	57.0%
Commercial, Industrial, Retail	35.9	37.8	39.8	39.9	39.3
Undeveloped	2.3	2.7	3.1	3.5	3.7

Source: City Finance Department.

Top Ten Taxpayers

Name	Type of Business	Assessed Valuation 2004	2003	2002
General Motors[1] Corporation	Auto Assembly	$202,560,640	$204,781,888	$216,054,181
McKesson Drug Co. [2]	Pharmaceutical	181,900,322	-	-
Oncor Electric Delivery Co.	Public Utility	147,290,009	151,139,100	147,999,596
Parks at Arlington LP	Real Estate Holdings	122,381,889	75,736,199	67,609,232
Southwestern Bell Telephone Co.	Public Utility	92,064,327	101,792,723	92,386,330
Texas Flags/Six Flags Over Texas	Amusement Park	80,676,418	75,956,198	82,346,291
Don Davis	Auto Dealership & Real Estate Holdings	50,112,393	49,508,130	56,411,757
HCA – Arlington Inc.	Healthcare	35,300,000	-	-
National Semiconductor[1]	Computer Chip Mfg.	33,626,030	63,607,152	54,149,357
EQR - Limited Partnership	Real Estate Holdings	32,265,000	44,446,796	49,727,579
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
Total		$978,177,028	$848,553,140	$843,652,935
Percentage of the above ten taxpayers of total tax rolls.		6.51%	5.91%	6.24%

[1] See Tax Data: Property Subject to Taxation and Assessed Value of Tax Abatement Agreement for 2003 abatement values.
[2] Value increase due to consolidation of facilities and high personal property levels.

Source: City Finance Department.

Tax Abatements

Assessed Value of Tax Abatement Agreements

Fiscal Year	Total Assessed Valuation Abated
1995	$106,939,169
1996	132,913,633
1997	191,058,280
1997	257,260,096
1999	369,707,519
2000	377,017,981
2001	359,001,468
2002	561,859,024
2003	509,488,606
2004	381,607,734

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 obligations issued in connection with the construction of The Ballpark in Arlington was terminated effective December 1, 2001, because such obligations 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 obligations.

Fiscal Year	Sales Tax [(1)] Receipts	Ad Valorem Tax Levy	Sales Tax as a % of Ad Valorem Tax Levy	Population Estimate	Per Capita Sales Tax Collection
1999	$39,130,327	$69,341,578	56%	309,859 [(2)]	$126.28
2000	43,383,927	72,828,633	60	332,969 [(3)]	130.29
2001	44,436,164	78,838,868	56	339,215	131.00
2002	41,172,479	85,674,820	48	346,197	118.93
2003	38,695,033	90,940,968	43	351,719	110.02

(1) One percent sales tax for general purposes of the City. Does not include any additional sales tax beyond the once percent.

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

(3) 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 (the "Hotel Occupancy Tax") 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 15 percent for the encouragement , promotions and application of the arts and cannot exceed 15 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	Hotel Occupancy Tax Receipts
1999	$4,525,015
2000	4,590,234
2001	4,675,990
2002	4,118,312
2003	3,909,501

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 774 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.

SELF INSURANCE

As of November 1, 1986, the City of Arlington 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. Arlington officials created a fully funded self-insurance program by issuing taxable municipal obligations. 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. Obligations 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 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, 2003, the total current assets less accounts payable and estimated current claims payable were $6,194,000. The estimated non-current claims payable (long term claims) at September 30, 2002 was $744,000. Claims occurring prior to November 1, 1986 are covered under the City's previous commercial insurance program. Property, Fidelity and Crime coverage’s 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 27, 2004.

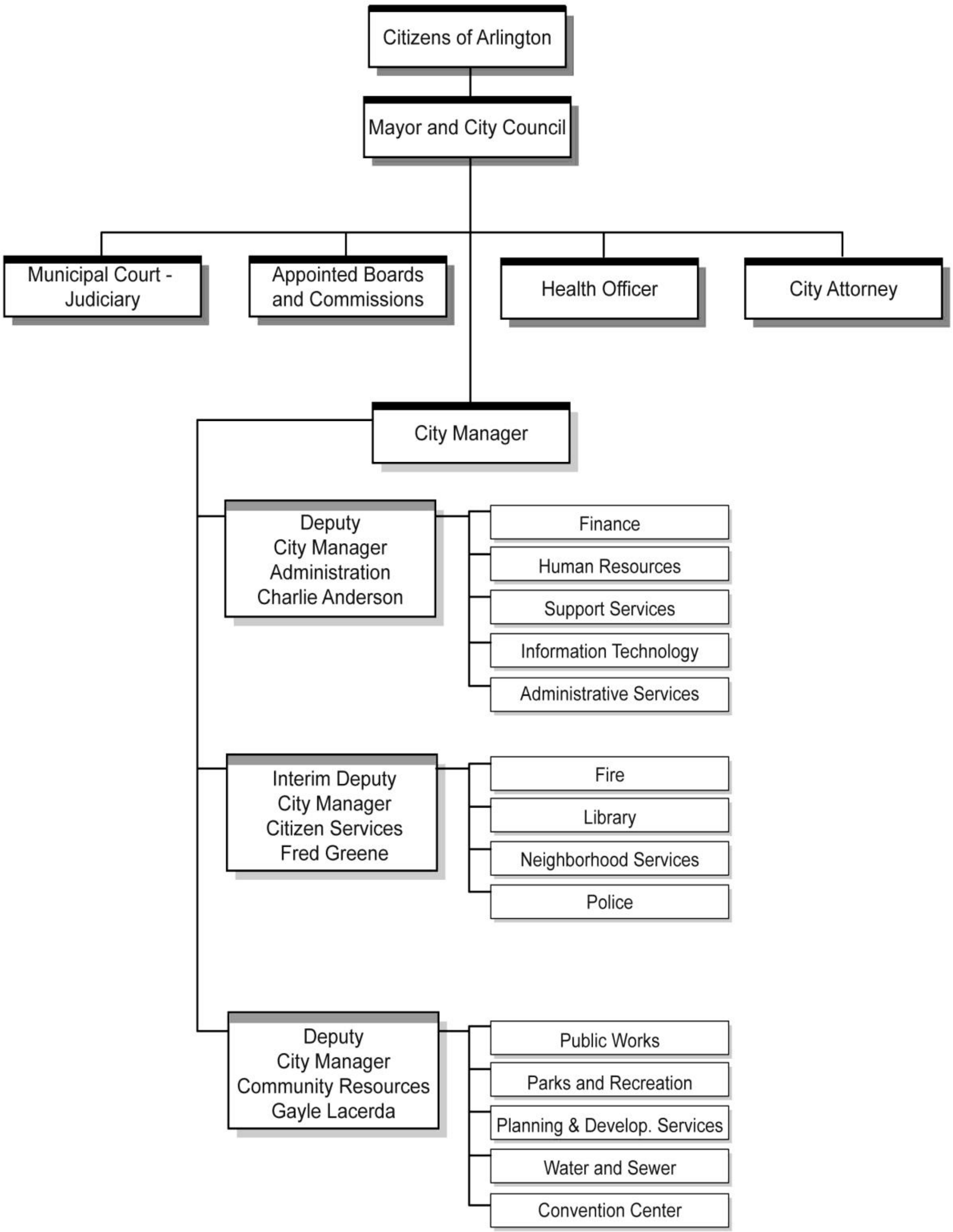
\s\ Robert N. Cluck
Mayor, City of Arlington, Texas

ATTEST:

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

APPENDIX A

City of Arlington Organization Chart



APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS
OF THE CITY OF ARLINGTON
FISCAL YEAR 2003

Copies of the complete City of Arlington Comprehensive Annual Financial Report Year Ended September 30, 2003 may be obtained from the City's Treasury Manager.

CITY OF ARLINGTON, TEXAS

BASIC FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2003

TABLE OF CONTENTS

KPMG LLP
Suite 3100
717 North Harwood Street
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 (the City) as of and for the year ended September 30, 2003, 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 for the Arlington Housing Authority, and the Arlington Convention and Visitors Bureau, Inc. which reflect total assets of $5,189,000 and $255,000, respectively as of September 30, 2003, and total revenues of $26,050,000 and $3,068,000, respectively for the year then ended, which represent 7.67% and .38%, and 81.91% and 9.65%, 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, 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 of Arlington as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-12, and the schedules of funding progress on page 58 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 6, 2004 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 6, 2004

CITY OF ARLINGTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2003

This 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, 2003. It should be read in conjunction with the accompanying letter of transmittal and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City of Arlington's net assets of governmental activities increased by $12.7 million or 3.3 percent this year, primarily because of an increase in the City's cash and investments of approximately $12.5 million. The City has higher cash and investment balances this year compared to last year due to more bond proceeds being held in capital project funds this year.

- The City's increase in total net assets of $30.5 million for the year ended September 30, 2003 was $5.5 million higher than for the year ended September 30, 2002. This $5.5 million is primarily attributable to higher property tax revenue in the General Fund and Debt Service Fund and the increase of one-quarter cent in the sales tax rate dedicated to the Street Maintenance Fund.

- As of September 30, 2003, the City of Arlington's governmental funds reported combined ending fund balances of $98.2 million, an increase of $9 million in comparison with the prior fiscal year. Increases in fund balance for the Street Capital Projects Fund and Other Nonmajor Funds account for the majority of this change.

- At the end of the current fiscal year, unreserved General Fund balance was $19.5 million compared to $18.4 million last year. This year, as well as last year, unreserved fund balance was fully designated for various purposes such as working capital requirements and subsequent years' expenditures.

- The City's total debt decreased $11.7 million during the current fiscal year. The City issued $41.9 million in Permanent Improvement Bonds and Refunding Bonds, $1.5 million in Combination Tax and Revenue Certificates of Obligation, and $11.7 million in Waterworks and Wastewater System Revenue Refunding Bonds. The City also refunded $17.8 million of Permanent Improvement Bonds and Certificates of Obligation, and $11.0 Million of Water and Sewer 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 four components, government-wide financial statements, fund financial statements, notes to the financial statements and required supplementary information. 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.

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 police, fire, libraries, planning and development, public works, 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 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 are detailed in a reconciliation following the fund financial statements.

  The City of Arlington maintains twenty-four 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-one 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. 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.

THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net assets were $794 million as of September 30, 2003. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business- type activities net assets are $393 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 (81.5 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
(Amounts Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Current and other assets	$ 139	$ 125	$ 93	$ 108	$ 232	$ 233
Capital assets	618	613	402	387	1,020	1,000
Total assets	757	738	495	495	1,252	1,233
Long-term liabilities	298	296	81	98	379	394
Other liabilities	58	54	21	22	79	76
Total liabilities	356	350	102	120	458	470
Net assets:						
Invested in capital assets, net of related debt	322	357	325	308	647	665
Restricted	-	2	10	-	10	2
Unrestricted	79	29	58	67	137	96
Total net assets	$ 401	$ 388	$ 393	$ 375	$ 794	$ 763

Governmental Activities

The City's general revenues increased when compared to the prior year by 4.6 percent or $7.9 million. The primary reason for this increase was due to a $11.2 million, or 8.3 percent increase in overall tax revenue. 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 $830.6 million or 6.1 percent while the property tax rate of $0.634 per $100 assessed valuation remained unchanged. In the General Fund, the increase in property tax revenue offset the decline in sales tax revenue. Sales tax revenue decreased $2.3 million or 5.5 percent over the previous year due to local economic conditions.

While overall tax revenue increased, utility franchise fee income and interest income decreased this year over last year. Interest income decreased $1.8 million or 47.5 percent due to lower interest rates on investments. Utility franchise fee income fell $0.5 million or 1.6 percent because of lower revenue from Comcast Cable Televisio, TXU Energy and various telephone companies.

Table 2
General Revenues
(Amounts Expressed In Thousands)

	2003	2002	Increase (Decrease)
Taxes	$ 145,689	$ 134,489	$ 11,200
Utility franchise fees	29,181	29,667	(486)
Interest income	2,040	3,888	(1,848)
Other revenue	2,268	3,205	(937)
Total general revenues	$ 179,178	$ 171,249	$ 7,929

Governmental and Business-type activities increased the City's net assets by $30.5 million for the year ended September 30, 2003 and $25.0 million for the year ended September 30, 2002. The key elements of these increases are as follows:

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

	Governmental Activities		**Business-type Activities**		**Total**	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for services	$ 33,422	$ 39,480	$ 89,618	$ 88,644	$ 123,040	$ 128,124
Operating grants and contributions	8,728	9,430	-	-	8,728	9,430
Capital grants and contributions	8,525	12,509	6,064	6,636	14,589	19,145
General Revenues:						
Taxes	145,689	134,489	-	-	145,689	134,489
Utility franchise fees	29,181	29,667	-	-	29,181	29,667
Other	4,308	7,093	1,417	2,143	5,725	9,236
Total revenues	229,853	232,668	97,099	97,423	326,952	330,091
Expenses:						
General government	28,511	34,330	-	-	28,511	34,330
Public safety	89,554	90,417	-	-	89,554	90,417
Public works	57,768	55,327	-	-	57,768	55,327
Public health	1,424	2,100	-	-	1,424	2,100
Parks and recreation	21,327	20,669	-	-	21,327	20,669
Public welfare	7,282	5,288	-	-	7,282	5,288
Convention and event services	5,478	5,426	-	-	5,478	5,426
Interest and fiscal charges	15,102	15,674	-	-	15,102	15,674
Water and sewer	-	-	68,282	68,106	68,282	68,106
Landfill	-	-	1,731	7,743	1,731	7,743
Total expenses	226,446	229,231	70,013	75,849	296,459	305,080
Increase in net assets before transfers	3,407	3,437	27,086	21,574	30,493	25,011
Transfers	9,254	4,705	(9,254)	(4,705)	-	-
Increase in net assets	12,661	8,142	17,832	16,869	30,493	25,011
Net Assets, October 1	388,211	380,069	375,070	358,201	763,281	738,270
Net Assets, September 30	$ 400,872	$ 388,211	$ 392,902	$ 375,070	$ 793,774	$ 763,281

The most significant governmental expense for the City was in the area of public safety, which incurred expenses of $89.6 million, representing a $0.8 million decrease when compared to the prior fiscal year. The components of public safety are police and fire. Police accounted for $56.9 million in public safety expense this year compared to $55.3 million last year, a 2.9 percent increase. Salary and benefits of $49.0 million comprised 86.1 percent of Police expense for the year ended September 30, 2003 as compared to salary and benefit expense of $47.0 million equaling 85.0 percent of last year's expense. These expenses were offset by revenues collected from a variety of sources, with the largest amount coming from fines and forfeitures, which are $7.5 million for the fiscal year ending September 30, 2003, an increase of $0.7 million or 10.3 percent. Fire accounted for $30.0 million in public safety expense this year, compared to $29.7 million last year, a slight increase of 1.0 percent. Salary and benefits of $26.1 million made up 87.0 percent of Fire expense for the year ended September 30, 2003 compared to salary and benefit expense of $25.1 million comprising 84.5 percent of last year's expense.

Other significant governmental expenses for the City include public works at $57.8 million for the year ended September 30, 2003 compared to $55.3 million last year, a 4.5 percent increase. This year's expense is comprised primarily of salary and benefits of $15.8 million and depreciation expense of $28.4

million compared to last year's expense which included $16.4 million in salary and benefits and $28.9 million in depreciation. The decrease in salary and benefits this year is primarily due to lower expenditures in the areas of building maintenance and code enforcement support.

Business-type Activities

Revenues of the City's business-type activities were $97.1 million for the fiscal year ending September 30, 2003. Revenues decreased slightly by approximately $0.3 million, less than one half of one percent. Expenses for the City's business-type activities were $70.0 million for the year, a decrease of $5.8 million or 7.7 percent. The resulting increase in net revenues is the result of several factors, including the following:

- The City's water and sewer system recorded charges for services of $81.9 million, an increase of $1.2 million over last year, and a non-cash revenue source of $5.8 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, the water and sewer system charges for services of $81.9 million exceeded expenses of $68.3 million by $13.6 million. The most significant expenses of the water and sewer fund were $12.4 million to purchase water, $16.0 million for the purchase of sewage treatment and $12.6 million in salaries and benefits. Overall the City's water and sewer system's net revenues of $19.4 million (including developer contributions) for this year were just slightly higher than last year's net revenue of $19.3 million.

- The City's landfill activity recorded charges for services of $7.7 million, a slight decrease of $0.1 million over last year. Expenses were $1.7 million, $5.9 million less than last year, resulting in net revenue of $6.0, approximately $5.8 million greater than last year. The significant decrease in landfill expense is primarily attributable to a decrease in closure/post closure expense. Closure/post closure costs are costs that are incurred to provide for the maintenance of the landfill area and 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. These amounts can change due to inflation, changes in technology or changes in regulations. According to a study performed for the year ended September 30, 2003, estimated landfill closure/post-closure costs decreased $4.4 million primarily because of efficiencies derived from a newly installed waste-gas collection system and the resulting 20-year methane gas rights agreement with Renovar Energy Corporation. Additionally, the construction costs associated with the closure of the landfill industry-wide have decreased due to design and technology innovations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2003, the City had $1.020 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 $19.8 million or 2 percent over the prior fiscal year. Footnote 4 in the notes to the financial statements provides more detailed information regarding the City's capital asset activity.

Table 4
Capital Assets, net of Accumulated Depreciation
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Land	$ 69,739	$ 68.373	$ 9,474	$ 9,446	$ 79,213	$ 77,819
Buildings and improvements	101,185	99,970	3,438	4,718	104,623	104,688
Equipment	16,354	15,000	1,631	1,216	17,985	16,216
Construction in progress	114,885	110,408	72,902	61,456	187,787	171,864
Infrastructure	315,712	319,593	-	-	315,712	319,593
Water and sewer system	-	-	314,749	310,036	314,749	310,036
Totals	$ 617,875	$ 613,344	$ 402,194	$ 386,872	$ 1,020,069	$ 1,000,216

Major capital asset additions during the fiscal year include the following:

- Private developer capital contributions of $5.8 million to the City's water, sewer, and drainage infrastructure in connection with various residential and commercial developments

- Water and sewer system capital improvements and expansion totaling $7.4 million

- A variety of street maintenance, storm drainage, and street construction projects with capital outlay totaling $18.3 million

- Various capital outlays totaling $4.2 million for improvement of the City's parks and recreation facilities

- Various capital outlays of $5.6 million for police and fire public safety improvements

The City's fiscal year preliminary 2004 capital budget calls for it to spend $27.0 million for capital projects, principally in five major categories: information technology, street improvements, libraries, parks and recreation, and neighborhood services. The estimated expenditures for street improvements are $15.6 million and include $3.3 million for Center Street, Collins Street and IH-30 renovations, $2.8 million for Little Road and $2.4 million for Great Southwest Industrial District street improvements. Library's estimated expenditures are $1.9 million, primarily for the procurement of new technology. The estimated expenditures for parks and recreation of $4.2 million include $2.8 million for the Southwest Swimming Pool and $0.3 million for Gibbins Park renovations. Neighborhood services' estimated expenditures of $2.3 million are to be used toward an animal services center. Information technology's estimated expenditures of $2.4 million are for the procurement of an enterprise software system. The 2004 Capital Budget is not adopted and individual projects are subject to change.

Debt

At year-end, the City had $382.5 million in General Obligation Bonds and Combination Tax and Revenue Certificates of Obligations outstanding as compared to $394.2 million at the end of the prior fiscal year, a decrease of 3.0 percent as shown in Table 5.

Table 5
Outstanding Debt
(Amounts Expressed In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
General obligation bonds						
(backed by the City)	$ 259,879	$ 256,795	$ -	$ -	$ 259,879	$ 256,795
Combination tax and revenue certificates of obligation						
(backed by the City)	39,630	42,855	-	-	39,630	42,855
Revenue bonds						
(backed by fee revenues)	-	-	82,982	94,575	82,982	94,575
Totals	$ 299,509	$ 299,650	$ 82,982	$ 94,575	$ 382,491	$ 394,225

During the current fiscal year the City issued debt in February, June and July of 2003. The new debt resulted primarily from the issuance of general obligation refunding and improvement bonds in the amount of $41.9 million for the purpose of refunding a portion of the City's outstanding debt and making various capital improvements. $17.8 million was used for refunding outstanding debt and $24.1 million was devoted to projects such as street enhancements and parks and recreation improvements. Additionally, the City issued $11.7 million in water and wastewater system revenue refunding bonds. Footnote 6 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

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 2.1 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 $12.7 million at September 30, 2003 compared to $8.9 million at September 30, 2002.

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2003, the governmental funds of the City reported a combined fund balance of $98.2 million. This ending balance includes an increase in fund balance of $0.1 million in the City's General Fund. The General Fund was able to post this slight increase in fund balance despite lower than anticipated sales tax revenues throughout the fiscal year. This is due to Management's implementation of cost containment measures, as described below, to mitigate the loss of sales tax revenue. Also, due to declining revenues from hotel occupancy taxes, $1.2 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 $2.0 million increased $0.3 million over last year. This increase is primarily attributable to a combination of higher property tax revenue and lower interest expenditures this year compared to last year.

- The City spent $15.7 million in capital outlay in the Street Capital Projects Fund, down $6.6 million as compared to the same period in the prior year.

- The City's water and sewer fund net assets of $360.0 million increased by $17.5 million over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding operating expenses by $15.6 million.

- The City's sanitary landfill fund net assets were $33.7 million and increased by $0.7 million as compared to the prior fiscal year. This increase is the result of operating revenues exceeding operating expenses by $6.1 million, offset by a $5.9 million transfer to the General Fund.

General Fund Budgetary Highlights

During FY 2002-03, there were no budget amendments for the General Fund.

For FY 2002-03, actual expenditures on a budgetary basis were $152.1 million compared to the budget amount of $156.0 million. The $4.0 million positive variance was due to savings achieved through a series of expenditure restrictions imposed by the City Manager's Office during the year. The restrictions included a hiring freeze, a limitation on out-of-town travel, a freeze on capital expenditures, and staffing reductions.

For FY 2002-03, actual revenues on a budgetary basis were $149.8 million as compared to the budget amount of $154.4 million. The majority of the $4.6 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 $22.6 million as of the fiscal year end, compared to the budgeted fund balance of $20.7 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 2004 budget, tax rates, and fees that will be charged for the business-type activities. One of the most significant factors is the City's changing retail environment. Over the last several years, the City has lost its competitive advantage as a regional shopping destination. This has resulted in a decline in sales tax revenue by several million dollars in each of the last two years. Current economic conditions have contributed to declines in other major categories of revenue as well, including licenses and permits, franchise fees, and hotel occupancy tax revenue. These trends were taken into account when adopting the General Fund budget for fiscal year 2004. The total 2003-04 combined budget appropriation is $160.7 million. This represents an increase of $4.7 million or 3.0 percent over the 2002-03 budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2004 is $0.6480 per $100 valuation, an increase of $0.014 or 2.2 percent. Of this tax rate, 59.9 percent or $0.3879 is utilized for General Fund activities. The remaining 40.1 percent or $0.2601 is used for debt service. The General Fund's portion of property tax revenue for FY 2004 is estimated to be $57.6 million up $6.2 million or 12.1% compared to last year. The City's portion of the sales tax rate is one and one-quarter cents, compared to one cent last year. The City of Arlington voters approved the one-quarter cent increase in the sales tax rate, effective January 1, 2003, for the purpose of repairing and maintaining existing streets. The General Fund continues to receive one cent while the other one-quarter cent is received by the Street Maintenance Fund. Sales tax revenue for the General Fund for fiscal year 2004 is estimated at $38.6 million. This is unchanged from fiscal year 2003's estimate due to the sluggish retail sales environment discussed above.

The largest revenue source for the Water and Sewer fund is water sales, at $47.2 million. This is the charge for potable water used by customers. Beginning October 1, 2003, the City introduced a new rate structure designed to ensure that each category of service is self supporting. The new rate structure incorporates conservation rates designed to encourage consumers to reduce the amount of water they use. Residential conservation rates for fiscal year 2004 range from $1.63 per 1,000 gallons for the first 2,000 gallons of consumption to $2.73 per 1,000 gallons of consumption. The rate for fiscal year 2003 was $2.10 per 1,000 gallons. These rates incorporate the cost of raw water, treatment, distribution and maintenance costs. The second largest revenue source for the Water and Sewer fund is wastewater treatment charges. The total revenue expected is $38.1 million based on a fiscal year 2004 rate of $2.48 per 1,000 gallons, $0.03 higher than last year's rate of $2.45 per 1,000 gallons. The total revenue for the Water and Sewer Fund is estimated to be $90.6 million for fiscal year 2004.

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, projected to be $5.8 million for fiscal year 2004. 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, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 104,277	$ 36,370	$ 140,647	$ 5,715
Investments	5,047	-	5,047	4,527
Receivables				
Taxes	4,690	-	4,690	-
Sales taxes	8,803	-	8,803	-
Grants	-	-	-	377
Leases	-	-	-	41,056
Trade accounts	782	5,796	6,578	-
Franchise fees	6,312	-	6,312	-
Unbilled trade accounts	-	5,913	5,913	-
Special assessments	508	-	508	-
Accrued interest	686	-	686	13
Settlement agreement	-	-	-	11,564
Other	3,836	694	4,530	48
Internal balances	778	(778)	-	-
Due from component units	103	-	103	-
Due from other governments	2,193	-	2,193	-
Deferred charge - issuance costs	287	-	287	-
Inventory of supplies, at cost	254	7,410	7,664	8
Prepaid expenses	72	-	72	2,053
Restricted assets-				
Bond contingency-				
Investments	-	10,780	10,780	-
Accrued interest receivable	-	127	127	-
Capital construction-				
Investments	-	22,505	22,505	-
Assessments receivable	-	4	4	-
Meter deposits-				
Investments	-	3,597	3,597	-
Capital Assets-				
Land	69,739	9,474	79,213	-
Buildings and improvements	143,922	16,435	160,357	2,739
Water and sewer system	-	447,213	447,213	-
Machinery and equipment	40,867	13,658	54,525	1,139
Infrastructure	702,702	-	702,702	-
Construction in progress	114,885	72,902	187,787	-
Accumulated depreciation	(454,240)	(157,488)	(611,728)	(1,572)
Total Assets	$ 756,503	$ 494,612	$ 1,251,115	$ 67,667

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, 2003
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
LIABILITIES				
Accounts payable and accrued liabilities	$ 8,451	$ 2,665	$ 11,116	$ 2,706
Retainage payable	1,283	-	1,283	-
Due to primary government	-	-	-	103
Due to other governments	1,378	-	1,378	-
Deferred revenue-other	6,143	-	6,143	41,061
Accrued interest	2,119	-	2,119	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	1,168	1,168	-
Retainage payable	-	610	610	-
Accrued interest	-	1,269	1,269	-
Revenue bonds payable, current	-	3,571	3,571	-
Meter deposits	-	3,597	3,597	-
Non-current liabilities				
Due within one year:				
Estimated claims payable	8,613	-	8,613	-
Sales tax payable	149	-	149	74
General obligation debt	28,270	-	28,270	-
Accrued compensated balances	1,298	66	1,364	-
Capital lease obligation	442	-	442	-
Revenue bonds, net of discount	-	7,144	7,144	-
Due in more than one year:				
Arbitrage rebate	320	-	320	-
Estimated claims payable	4,170	-	4,170	-
Sales tax payable	1,230	-	1,230	608
Bonds payable	-	-	-	17,109
General obligation debt	271,239	-	271,239	-
Landfill closure accrued liabilities	-	7,631	7,631	-
Accrued compensated balances	20,040	1,722	21,762	-
Capital lease obligation	486	-	486	-
Revenue bonds, net of discount	-	72,267	72,267	-
Total Liabilities	355,631	101,710	457,341	61,661
NET ASSETS				
Invested in capital assets, net of related debt	321,615	325,159	646,774	(14,803)
Restricted for debt service	419	9,638	10,057	4,374
Unrestricted	78,838	58,105	136,943	16,435
Total Net Assets	$ 400,872	$ 392,902	$ 793,774	$ 6,006

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, 2003
(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	$ 28,511	$ 11,911	$ -	$ -
Public safety	89,554	8,068	2,277	512
Public works	57,768	4,395	1,559	2,948
Public health	1,424	65	171	-
Parks and recreation	21,327	6,636	-	5,065
Public welfare	7,282	-	4,721	-
Convention and event services	5,478	2,347	-	-
Interest and fiscal charges	15,102	-	-	-
Total Governmental Activities	226,446	33,422	8,728	8,525
Business-Type Activities:				
Water and sewer	68,282	81,890	-	5,816
Landfill	1,731	7,728	-	248
Total Business-Type Activities	70,013	89,618	-	6,064
Total Primary Government	$ 296,459	$ 123,040	$ 8,728	$ 14,589
Component Units:				
Arlington Sports Facilities Development Authority, Inc.	$ 1,154	$ 2,507	$ -	$ -
Arlington Housing Authority	27,015	-	25,936	11
Arlington Convention and Visitors Bureau	3,104	2,710	352	-
Arlington Housing Finance Authority	119	30	-	-
Arlington Industrial Development Corporation	-	-	-	-
Total Component Units	$ 31,392	$ 5,247	$ 26,288	$ 11

General Revenues:
Taxes
Utility franchise fees
Interest
Net increase (decrease) in fair value of investments
Other
Transfers
Total general revenues and transfers
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
$ (16,600)	$ -	$ (16,600)	$ -
(78,697)	-	(78,697)	-
(48,866)	-	(48,866)	-
(1,188)	-	(1,188)	-
(9,626)	-	(9,626)	-
(2,561)	-	(2,561)	-
(3,131)	-	(3,131)	-
(15,102)	-	(15,102)	-
(175,771)	-	(175,771)	-
-	19,424	19,424	-
-	6,245	6,245	-
	25,669	25,669	-
$ (175,771)	$ 25,669	$ (150,102)	$ -
$ -	$ -	$ -	1,353
-	-	-	(1,068)
-	-	-	(42)
-	-	-	(89)
-	-	-	-
$ -	$ -	$ -	$ 154
145,689	-	145,689	-
29,181	-	29,181	-
2,040	1,456	3,496	220
(10)	(39)	(49)	(7)
2,278	-	2,278	42
9,254	(9,254)	-	-
188,432	(7,837)	180,595	255
12,661	17,832	30,493	409
388,211	375,070	763,281	5,597
$ 400,872	$ 392,902	$ 793,774	$ 6,006

CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 6,825	$ 2,315	$ 34,807	$ 47,477	$ 91,424
Investments	-	3	-	-	3
Receivables (net of allowance for uncollectibles)					
Taxes	3,569	-	-	1,121	4,690
Sales taxes	7,035	-	-	1,768	8,803
Franchise fees	6,312	-	-	-	6,312
Special assessments	-	-	508	-	508
Accrued interest	661	-	-	-	661
Other	1,975	-	-	1,861	3,836
Due from other funds	2,290	-	-	23	2,313
Due from component units	103	-	-	-	103
Due from other governments	-	-	-	2,193	2,193
Inventory of supplies, at cost	112	-	-	-	112
Prepaid expenditures	67	-	-	3	70
Total Assets	$ 28,949	$ 2,318	$ 35,315	$ 54,446	$ 121,028
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 3,992	$ 292	$ 1,281	$ 2,080	$ 7,645
Retainage payable	39	-	568	676	1,283
Due to other funds	-	-	-	2,313	2,313
Due to other governments	-	-	-	1,378	1,378
Deferred revenue-					
Taxes	3,225	-	-	-	3,225
Other	887	-	849	5,297	7,033
Total Liabilities	8,143	292	2,698	11,744	22,877
Fund Balances:					
Reserved for encumbrances	656	-	10,048	7,193	17,897
Reserved for debt service	-	2,026	-	512	2,538
Reserved for inventory	112	-	-	-	112
Reserved for prepaids	67	-	-	3	70
Reserved for capital maintenance		-	-	253	253
Reserved for capital projects	-	-	22,569	28,298	50,867
Reserved for street maintenance	-	-	-	394	394
Reserved for capital outlay	-	-	-	442	442
Reserved for utility rate case	500	-	-	-	500
Unreserved-					
General fund					
Designated for telecommunications	102	-	-	-	102
Designated for working capital	12,981	-	-	1,759	14,740
Designated for subsequent years' expenditures	4,821	-	-	-	4,821
Designated for arbitrage	320	-	-	-	320
Designated for compensated absenses	1,247	-	-	-	1,247
Special revenue funds	-	-	-	3,848	3,848
Total Fund Balances	20,806	2,026	32,617	42,702	98,151
Total Liabilities and Fund Balances	$ 28,949	$ 2,318	$ 35,315	$ 54,446	$ 121,028

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

CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF SEPTEMBER 30, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

Total fund balance per balance sheet	$	98,151
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		606,576
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		4,115
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 (including capital assets of $11,299).		16,911
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.		(324,881)
Net assets of governmental activities	$	400,872

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, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	$ 94,371	$ 39,168	$ -	$ 11,700	$ 145,239
Licenses and permits	3,833	-	-	-	3,833
Utility franchise fees	29,163	-	-	-	29,163
Fines and forfeitures	7,475	-	-	-	7,475
Leases, rents and concessions	2,908	-	-	-	2,908
Service charges	5,388	-	-	14,036	19,424
Interest revenue	489	332	495	598	1,914
Net increase (decrease) in fair value of investments	10	-	(4)	11	17
Contributions	-	-	2,087	271	2,358
Intergovernmental revenues	-	-	-	14,895	14,895
Other	500	158	202	1,275	2,135
Total Revenues	144,137	39,658	2,780	42,786	229,361
EXPENDITURES					
Current-					
General government	28,309	-	-	124	28,433
Public safety	86,886	-	-	4,048	90,934
Public works	18,085	-	-	9,789	27,874
Public health	1,051	-	-	188	1,239
Parks and recreation	12,457	-	-	6,108	18,565
Public welfare	-	-	-	3,585	3,585
Convention and event services	-	-	-	5,471	5,471
Capital Outlay	158	-	15,652	22,552	38,362
Debt service-					
Principal retirement	-	27,420	-	-	27,420
Interest and fiscal charges	-	15,186	-	-	15,186
Bond issuance costs	-	133	-	-	133
Total Expenditures	146,946	42,739	15,652	51,865	257,202
Excess (deficiency) of revenues over (under) expenditures	(2,809)	(3,081)	(12,872)	(9,079)	(27,841)
OTHER FINANCING SOURCES (USES)					
Proceeds from general obligation bonds	-	-	11,190	14,400	25,590
Proceeds from capital lease	-	-	-	1,159	1,159
Proceeds from refunding bond issue	-	17,840	-	-	17,840
Bond premium		1,128	930	720	2,778
Amounts used to fund escrow account	-	(18,835)	-	-	(18,835)
Transfers in	10,522	3,227	2,670	9,503	25,922
Transfers out	(7,614)	-	(145)	(9,933)	(17,692)
Total Other Financing Sources and Uses	2,908	3,360	14,645	15,849	36,762
Net Change in Fund Balances	99	279	1,773	6,770	8,921
Fund Balances, October 1	20,707	1,747	30,844	35,932	89,230
Fund balances, September 30	$ 20,806	$ 2,026	$ 32,617	$ 42,702	$ 98,151

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, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

Net change in fund balance - total governmental funds	$ 8,921
Amounts reported for governmental activities in the statement of activities are different because:	
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.	5043
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	87
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.	(540)
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.	(523)
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	(327)
Change in net assets of governmental activities	$ 12,661

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

CITY OF ARLINGTON, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2003
(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	$ 96,808	$ 96,808	$ 94,371	$ -	$ 94,371	$ (2,437)
Licenses and permits	3,883	3,883	3,833	-	3,833	(50)
Utility franchise fees	30,907	30,907	29,163	-	29,163	(1,744)
Fines and forfeitures	7,062	7,062	7,475	-	7,475	413
Leases, rents and concessions	3,506	3,506	2,908	500	3,408	(98)
Service charges	11,574	11,574	5,388	5,634	11,022	(552)
Interest revenue	654	654	489	75	564	(90)
Other revenue	-	-	500	(500)	-	-
Net increase (decrease) in the fair value of investments	-	-	10	(10)	-	-
Total Revenues	154,394	154,394	144,137	5,699	149,836	(4,558)
EXPENDITURES						
Current-						
General government	28,806	28,806	28,309	(918)	27,391	1,415
Public safety	88,379	88,379	86,886	2,069	88,955	(576)
Public works	24,009	24,009	18,085	3,928	22,013	1,996
Public health	1,082	1,082	1,051	-	1,051	31
Parks and recreation	13,760	13,760	12,457	52	12,509	1,251
Capital Outlay	-	-	158	-	158	(158)
Total Expenditures	156,036	156,036	146,946	5,131	152,077	3,959
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(1,642)	(1,642)	(2,809)	568	(2,241)	(599)
OTHER FINANCING SOURCES (USES)						
Transfers in	9,593	9,593	10,522	(676)	9,846	253
Transfers out	(7,913)	(7,913)	(7,614)	1,946	(5,668)	2,245
Total Other Financing Sources (Uses)	1,680	1,680	2,908	1,270	4,178	2,498
Net Change In Fund Balances	38	38	99	1,838	1,937	1,899
Fund Balances, October 1	20,707	20,707	20,707	-	20,707	-
Fund Balances, September 30	$ 20,745	$ 20,745	$ 20,806	$ 1,838	$ 22,644	$ 1,899

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, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			Governmental Activities-
	Water and Sewer	Sanitary Landfill	Total	Internal Service Funds
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 9,986	$ 26,384	$ 36,370	$ 12,853
Investments	-	-	-	5,044
Restricted Assets				
Bond contingency-				
Investments	5,696	-	5,696	-
Accrued Interest	127	-	127	-
Capital construction investments	15,970	-	15,970	-
Meter deposit investments	3,597	-	3,597	-
Receivables (net of allowances for uncollectables):				
Trade accounts	5,796	-	5,796	782
Accrued interest	-	-	-	25
Unbilled trade accounts	5,913	-	5,913	-
Prepaid expenses	-	-	-	2
Other	158	536	694	-
Inventory of supplies, at cost	359	7,051	7,410	142
Total Current Assets	47,602	33,971	81,573	18,848
Non-Current Assets:				
Restricted Assets:				
Bond contingency-investments	5,084	-	5,084	-
Capital construction-				
Investments	6,535	-	6,535	-
Assessments receivable	4	-	4	-
Total Restricted Assets	11,623	-	11,623	-
Capital Assets:				
Land	4,828	4,646	9,474	-
Buildings and improvements	2,833	13,602	16,435	467
Water and sewer system	447,213	-	447,213	-
Machinery and equipment	9,728	3,930	13,658	29,910
Construction-in-progress	72,245	657	72,902	-
Accumulated depreciation	(142,249)	(15,239)	(157,488)	(19,078)
Total Capital Assets Net of Accumulated Depreciation	394,598	7,596	402,194	11,299
Total Noncurrent Assets	406,221	7,596	413,817	11,299
Total Assets	$ 453,823	$ 41,567	$ 495,390	$ 30,147

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, 2003
(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	$ 2,564	$ 101	$ 2,665	$ 806
Accrued compensated absences- Current	64	2	66	28
Revenue bonds, net of discount, payable from unrestricted assets	7,144	-	7,144	-
Capital lease obligation	-	-	-	57
Current Liabilities Payable From Restricted Assets:				
Accounts payable and accrued Liabilities	1,168	-	1,168	-
Retainage	610	-	610	-
Accrued interest	1,269	-	1,269	-
Estimated claims payable	-	-	-	8,613
Revenue bonds payable	3,571	-	3,571	-
Meter deposits	3,597	-	3,597	-
Total Current Liabilities	19,987	103	20,090	9,504
Noncurrent Liabilities:				
Estimated claims payable	-	-	-	4,170
Compensated absences	1,600	122	1,722	313
Landfill closure accrued liabilities	-	7,631	7,631	-
Revenue bonds, net of discount payable from unrestricted assets	72,267	-	72,267	-
Capital lease obligation	-	-	-	27
Total Noncurrent Liabilities	73,867	7,753	81,620	4,510
Total Liabilities	93,854	7,856	101,710	14,014
NET ASSETS				
Invested in capital assets, net of related debt	317,563	7,596	325,159	11,299
Restricted for debt service	9,638	-	9,638	-
Unrestricted	32,768	26,115	58,883	4,834
Total Net Assets	$ 359,969	$ 33,711	393,680	$ 16,133

Reconciliation to government-wide statements of net assets:	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	(778)
Net assets of business-type activities	$ 392,902

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, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	Sanitary Landfill	Total	Governmental Activities- Internal Service Funds
Operating Revenues:				
Water sales	$ 47,206	$ -	$ 47,206	$ -
Sewer service	30,058	-	30,058	-
Landfill user charges	-	7,674	7,674	-
Service charges	-	-	-	31,658
Sundry	4,626	54	4,680	-
Total Operating Revenues	81,890	7,728	89,618	31,658
Operating Expenses:				
Purchase of water	12,423	-	12,423	-
Purchase of sewage treatment	15,959	-	15,959	-
Salaries and wages	11,316	1,269	12,585	2,333
Employees' retirement	1,330	126	1,456	303
Supplies	1,739	139	1,878	3,212
Maintenance and repairs	2,030	1,469	3,499	1,094
Utilities	2,528	65	2,593	139
Claims	-	-	-	22,498
Legal	-	-	-	379
Franchise fees	3,874	-	3,874	-
Payment-in-lieu-of taxes	2,298	40	2,338	-
Depreciation	9,010	1,383	10,393	2,794
Closure/post-closure expense	-	(4,417)	(4,417)	-
Miscellaneous services	3,812	1,540	5,352	935
Total Operating Expenses	66,319	1,614	67,933	33,687
Operating Income	15,571	6,114	21,685	(2,029)
Nonoperating Revenues (Expenses):				
Interest revenue	1,035	421	1,456	221
Net increase (decrease) in the fair value of investments	(34)	(5)	(39)	(27)
Gain on sale of assets	-	-	-	119
Interest expense and fiscal charges	(1,705)	-	(1,705)	(10)
Total Nonoperating Revenues (Expenses)	(704)	416	(288)	303
Income before transfers and contributions	14,867	6,530	21,397	(1,726)
Contributions in aid of construction	5,816	248	6,064	-
Transfers in	-	-	-	2,366
Transfers out	(3,227)	(6,027)	(9,254)	(1,342)
Change in Net Assets	17,456	751	18,207	(702)
Total Net Assets, October 1	342,513	32,960	375,473	16,835
Total Net Assets, September 30	$ 359,969	$ 33,711	$ 393,680	$ 16,133

Net change in net assets - total proprietary funds	$ 18,207
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(375)
Change in net assets of business-type activities	$ 17,832

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, 2003
(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	$ 82,991	$ 7,655	$ 90,646	$ 30,985
Cash payments to suppliers	(43,684)	(2,358)	(46,042)	(4,183)
Cash payments to employees	(12,558)	(1,370)	(13,928)	(22,569)
Net Cash Provided By Operating Activities	26,749	3,927	30,676	4,233
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:				
Transfers in	-	-	-	2,366
Transfers out	(3,227)	(6,027)	(9,254)	(1,342)
Net Cash Used For Noncapital Financing Activities	(3,227)	(6,027)	(9,254)	1,024
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(19,046)	(854)	(19,900)	(2,257)
Principal payments on capital lease	-	-	-	(63)
Interest payments on capital lease	-	-	-	(10)
Proceeds from sales of capital assets	-	-	-	118
Contribution in aid of construction	-	-	-	-
Repayment of long-term debt	(11,635)	-	(11,635)	-
Interest payment long-term debt	(4,864)	-	(4,864)	-
Net Cash Used For Capital And Related Financing Activities	(35,545)	(854)	(36,399)	(2,212)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from interest earnings	1,209	421	1,630	221
Net increase (decrease) in the fair value of investments	(34)	(5)	(39)	(27)
Purchase of investments	(136,678)	-	(136,678)	(16,617)
Maturities/sales of investments	150,764	-	150,764	14,999
Net Cash Provided By Investing Activities	15,261	416	15,677	(1,424)
Net Increase (Decrease) In Cash And Cash Equivalents	3,238	(2,538)	700	1,621
Cash And Cash Equivalents, October 1	6,748	28,922	35,670	11,232
Cash And Cash Equivalents, September 30	$ 9,986	$ 26,384	$ 36,370	$ 12,853
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income	$ 15,571	$ 6,114	$ 21,685	$ (2,029)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	9,010	1,383	10,393	2,794
Interest earnings capitalized	(174)	-	(174)	-
Interest expense capitalized	2,774	-	2,774	-
Amortization of bond premium	(43)	-	(43)	-
Provision for bad debts	(468)	-	(468)	-
(Increase) decrease in-				
Receivables	1,101	(74)	1,027	(674)
Inventory of supplies	47	962	1,009	87
Prepaid Expenses	-	-	-	(2)
Increase (decrease) in-				
Accounts payable and accrued liabilities	(1,317)	(66)	(1,383)	284
Estimated claims payable	-	-	-	3,869
Retainage payable	139	-	139	-
Meter deposits	75	-	75	-
Accrued compensated absences	34	25	59	(96)
Closure/post-closure liability	-	(4,417)	(4,417)	-
Total adjustments	11,178	(2,187)	8,991	6,262
Net Cash Provided By Operating Activities	$ 26,749	$ 3,927	$ 30,676	$ 4,233
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	5,816	-	5,816	-
Contributions of inventory from developers	-	248	248	-
Issuance and payment of revenue refunding bonds	11,720	-	11,720	-

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 8,708
Accounts receivable	1	-
Investments		
Money market fund	25,093	-
U. S. Government bonds	131	-
Corporate bonds	218	-
Fixed income mutual bond funds	10,108	77
Common stock mutual bond funds	32,004	110
Participant borrowing	5,535	-
Self directed brokerage accounts	6,756	-
Total Investments	79,845	187
Total Assets	79,846	8,895
LIABILITIES		
Accounts payable and accrued liabilities	-	8,708
IRC 401 deferred compensation plans	-	187
Total Liabilities	-	8,895
NET ASSETS		
Held in trust for pension benefits	$ 79,846	

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, 2003
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds
ADDITIONS	
Employer contributions	$ 2,153
Employee contributions	4,737
Net appreciation in fair value of investments	9,903
Total Additions	16,793
DEDUCTIONS	
Benefits	5,286
Plan administration	42
Total Deductions	5,328
Increase in Net Assets	11,465
Net Assets, October 1	68,381
Net Assets, September 30	$ 79,846

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

CITY OF ARLINGTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

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. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34 (Statement No. 34) which requires the 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 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, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

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 for governmental funds. The accrual basis of accounting and the economic resources measurement focus 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, Capital Projects Funds and Debt Service Funds 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.

Statement No. 34 also requires supplementary information presented as 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 originally adopted and final General Fund budget with actual results.

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. Separate AHFC component unit financial statements can be obtained from the City’s Finance Department.

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. Separate AIDC component unit financial statements can be obtained from the City’s Finance Department.

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 are recorded when a liability is incurred, as under accrual accounting, except 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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. Cash, Cash Equivalents and Investments

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 are purchased with original 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 2003.

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

F. Inventories and Prepaid Items

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. Capital Assets

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 and No. 62, "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 2003, approximately $2,600,000 of interest costs, net of $174,000 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 2003 for the Water and Sewer Fund amounted to approximately $1,705,000 and $1,035,000, 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 $324,881,000 difference are as follows (amounts in thousands):

Bonds payable	$297,820
Less: Deferred charge for issuance costs (to be amortized as interest expense)	(287)
Premium general obligation debt	2,607
Deferred loss refunding	(918)
Accrued interest payable	2,119
Arbitrage rebate	320
Sales tax payable	1,379
Compensated absences	20,997
Capital leases	844
Net adjustment to reduce fund balance - total governmental funds To arrive at net assets - governmental activities	$324,881

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 $5,043,000 difference are as follows
(amounts in thousands):

Capital outlay	$38,599
Depreciation expense	(33,556)
Net adjustment to increase net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	$ 5,043

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 $540,000 difference are as follows (amounts in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	($43,430)
Premium on issuance	(2,778)
Less: Issuance costs	257
Capital lease	(1,159)
Principal repayments:	
General obligation debt	45,260
Bond deferred loss refunding	995
Capital lease	315
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	($ 540)

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 $523,000 difference are as follows (amounts in thousands):

Compensated absences	$ 709
Accrued interest expense	(94)
Amortization of issuance cost	20
Sales tax	(112)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$ 523

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 2003, the City Council did not approve any budgetary expenditure amendments for the General Fund.

The Budgetary Comparison Schedule 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. 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.

B. Deficit fund equity

The Group Health internal service fund deficit balance of $1,128,000 is both the result of higher than anticipated claims in fiscal year 2003 and the terminal reserve requirement with the previous provider, Cigna Health Care. The contract with the previous provider ended on December 31, 2002. The City is in negotiations with Cigna Health Care regarding the terminal reserve requirement and anticipates a favorable outcome. Also, effective January 2004, group health premiums are being raised to offset increased health costs.

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, 2003. At year-end, the carrying amount of the City's demand deposits (excluding Component Units) was an overdraft of $(1,639,000) (bank balance, $1,045,518). The City’s bank balance (excluding Component Units) was covered by collateral with a fair value of $5,343,533. 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, are 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, 2003 are:

	Category of Risk	Fair Value
Investments		
Treasury Notes	(1)	$103,982
Federal Home Loan Bank, Notes and Discount Notes	(1)	8,015
Federal National Mortgage Assoc., Notes and Discount Notes	(1)	25,684
Federal Home Loan Mortgage Assoc., Notes and Discount Notes	(1)	31,918
State and Local Government Securities	(1)	3,731
		173,330
Deposits		
Demand Deposits (all bank accounts)	(1)	(1,639)
		(1,639)
Mutual Funds, Investment Pools and Other		
TEXPOOL	N/A	16,414
FidelityN/A	3,107	
Deferred Compensation Investments	N/A	187
Trust Fund Investments	N/A	79,845
Cash on Hand	N/A	72
		99,625
Total Investments and Deposits		$271,316

Component Units

	Category of Risk	Fair Value
Investments		
Treasury STRIPS	(1)	$ 2,646
Deposits		
Certificates of Deposit	(1)	2,264
Demand Deposits	(1)	546
Mutual Funds, Investment Pools and Other		
TEXPOOL	N/A	2,929
U.S. Treasury Portfolio II	N/A	1,857
Total Investments and Deposits		$10,242

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	$ 72	$ -	$ 72	$ -
Carrying Amount of Deposits	(10,347)	2,810	(7,537)	8,708
Carrying Amount of Investments	192,851	7,432	200,283	80,032
	$182,576	$10,242	$192,818	$88,740
Cash and Cash Equivalents	$140,647	$5,715	$146,362	$ 8,708
Investments	5,047	4,527	9,574	80,032
Investments-Restricted	36,882	-	36,882	-
	$182,576	$10,242	$192,818	$88,740

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 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2002, upon which the original 2003 levy was based, was $14,344,001,000.

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, 2003, 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 Article XI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately $267,659,000 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $14,344,001,000.

In Texas, county-wide 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 8 percent, 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, 2003 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 Projects	Water & Sewer	Sanitary Landfill	Nonmajor & Other Funds	Total
Receivables:							
Taxes	$ 8,175	$ -	$ -	$ -	$ -	$2,889	$11,064
Trade Accounts	6,312	-	-	7,609	-	-	13,921
Unbilled Trade Accounts	-	-	-	5,913	-	-	5,913
Special Assessments	-	-	508	-	-	-	508
Sales Taxes	7,035	-	-	-	-	-	7,035
Accrued Interest	661	-	-	-	-	-	661
Other	1,975	-	-	158	536	1,887	4,556
Gross Receivables	24,158	-	508	13,680	536	4,776	43,658
Less: Allowance for Uncollectibles	(4,606)	-	-	(1,813)	-	(26)	(6,445)
Net total Receivables	$19,552	$ -	$508	$11,867	$536	$4,750	$37,213

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2003 was as follows:

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 68,373	$ 1,465	($ 99)	$ 69,739
Construction in progress	110,408	34,861	(30,384)	114,885
Total capital assets, not being depreciated	178,781	36,326	(30,483)	184,624
Capital assets, being depreciated:				
Buildings	85,557	2,748	33	88,338
Improvements other than buildings	53,020	2,592	(28)	55,584
Equipment	36,779	5,492	(1,404)	40,867
Infrastructure	678,396	24,306	-	702,702
Total capital assets, being depreciated	853,752	35,138	(1,399)	887,491
Less accumulated depreciation for:				
Buildings	21,926	1,860	15	23,801
Improvements other than buildings	16,681	2,270	(15)	18,936
Equipment	21,779	4,012	(1,278)	24,513
Infrastructure	358,803	28,187	-	386,990
Total accumulated depreciation	419,189	36,329	(1,278)	454,240
Total capital assets, being depreciated, net	434,563	(1,319)	7	433,251
Governmental activities capital assets, net	$613,344	$35,007	($30,476)	$617,875

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 9,446	$ 28	$ -	$ 9,474
Construction in progress	61,456	18,799	(7,353)	72,902
Total capital assets, not being depreciated	70,902	18,827	(7,353)	82,376
Capital assets, being depreciated:				
Buildings and improvements	16,435	-	-	16,435
Water and sewer system	433,787	13,426	-	447,213
Machinery and equipment	12,844	814	-	13,658
Total capital assets, being depreciated	463,066	14,240	-	477,306
Less accumulated depreciation for:				
Buildings and improvements	11,717	1,280	-	12,997
Water and sewer system	123,751	8,713	-	132,464
Machinery and equipment	11,628	399	-	12,027
Total accumulated depreciation	147,096	10,392	-	157,488
Total capital assets, being depreciated, net	315,970	3,848	-	319,818
Business-type activities capital assets, net	$386,872	$22,675	($7,353)	$402,194

	Balance at Beginning Of Year	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	60,987	18,611	(7,353)	72,245
Total capital assets, not being depreciated	65,815	18,611	(7,353)	77,073
Capital assets, being depreciated:				
Buildings and improvements	2,833	-	-	2,833
Water and sewer system	433,787	13,426	-	447,213
Machinery and equipment	9,551	177	-	9,728
Total capital assets, being depreciated	446,171	13,603	-	459,774
Less accumulated depreciation for:				
Buildings and improvements	752	53	-	805
Water and sewer system	123,751	8,713	-	132,464
Machinery and equipment	8,736	244	-	8,980
Total accumulated depreciation	133,239	9,010	-	142,249
Total capital assets, being depreciated, net	312,932	4,593	-	317,525
Water and Sewer activities capital assets, net	$378,747	$23,204	($7,353)	$394,598

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Sanitary Landfill:				
Capital assets, not being depreciated:				
Land	$ 4,618	$ 28	$ -	$ 4,646
Construction in progress	469	188	-	657
Total capital assets, not being depreciated	5,087	216	-	5,303
Capital assets, being depreciated:				
Buildings and improvements	13,602	-	-	13,602
Machinery and equipment	3,293	637	-	3,930
Total capital assets, being depreciated	16,895	637	-	17,532
Less accumulated depreciation for:				
Buildings and improvements	10,965	1,227	-	12,192
Machinery and equipment	2,892	155	-	3,047
Total accumulated depreciation	13,857	1,382	-	15,239
Total capital assets, being depreciated, net	3,038	(745)	-	2,293
Sanitary Landfill activities capital assets, net	$ 8,125	($ 529)	$ -	$ 7,596

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

Governmental activities:	
General Government	$ 2,627
Public Safety	326
Parks and recreation	2,134
Public works	28,414
Public health	34
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,794
Total depreciation expense – governmental activities	$36,329
Business-type activities:	
Water and sewer	$ 9,010
Sanitary landfill	1,383
Total depreciation expense – business-type activities	$10,393

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, being depreciated:				
Buildings and improvements	$2,739	$ -	$ -	$2,739
Total capital assets, being depreciated	2,739	-	-	2,739
Less accumulated depreciation for:				
Buildings and improvements	931	-	(110)	1,041
Total accumulated depreciation	931	-	(110)	1,041
Total capital assets, being depreciated, net	1,808	-	(110)	1,698
Arlington Sports Facility Development Authority, Inc. activities capital assets, net	$1,808	$ -	($110)	$1,698

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Arlington Housing Authority, Inc.:				
Capital assets, not being depreciated:				
Machinery and equipment	$1,100	$11	($350)	$761
Total capital assets, not being depreciated	1,100	11	(350)	761
Less accumulated depreciation for:				
Machinery and equipment	555	46	(332)	269
Total accumulated depreciation	555	46	(332)	269
Total capital assets, being depreciated, net	545	(35)	(18)	492
Arlington Housing Authority, Inc. activities capital assets, net	$ 545	($35)	($ 18)	$492

	Balance at Beginning Of Year	Additions	Transfers And Retirements	Balance at End Of Year
Arlington Convention and Visitors Bureau, Inc.:				
Capital assets, not being depreciated:				
Machinery and equipment	$450	$ -	($72)	$378
Total capital assets, not being depreciated	450	-	(72)	378
Less accumulated depreciation for:				
Machinery and equipment	300	-	(38)	262
Total accumulated depreciation	300	-	(38)	262
Total capital assets, being depreciated, net	150	-	(34)	116
Arlington Convention and Visitors Bureau, Inc. activities capital assets, net	$150	$ -	($34)	$116

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 774 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 2003, the City's annual pension cost of $14,117,102 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002, 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
9/30/01	12,884,047	100.00%	-
9/30/02	14,098,512	100.00%	-
9/30/03	14,117,102	100.00%	-

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, 2003, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $78,615,000. The City's total payroll during fiscal 2003 was $118,445,000. The current year contribution was calculated based on a covered payroll of $84,616,000, resulting in a required and actual employer contribution of $1,843,000 and actual employee contributions of $4,642,000. The employer contribution represents 2.3 percent of the covered payroll. The employee contribution represents approximately 5.7 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2003. 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, 2002, 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 2003. For 2002, 2002, 2001, 2000, 1999, and 1998 the City contributed 100 percent of the annual pension cost totaling approximately $0, $0, $0, $75,000, $69,000, 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, 2003, are as follows (amounts in thousands):

TMRS	$14,117
THRIFT	1,843
PTDIT	-
DIP	310
	$16,270

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, 471 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 $2,205,000 were recognized for postretirement health care.

6. LONG-TERM DEBT

General Long-Term Debt

In June 2003, the City issued $41,930,000 of Permanent Improvement and Refunding Bonds, Series 2003 for the purpose of refunding a portion of the City's outstanding debt, making various capital improvements and paying the cost of issue related to the bond sale. The bonds will mature on August 15th of each year over a period from 2004 to 2023. Interest is payable February 15 and August 15 of each year commencing February 15, 2004. Total interest requirements for these bonds, at rates ranging from 2.0 percent to 5.0 percent aggregate $16,751,325. The proceeds from the refunding portion of the issuance of $17,840,000 were used to purchase U.S. Government securities which were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments of the refunded $17,840,000 of permanent improvement bonds and certificates of obligation. As a result, the refunded bonds are considered to be legally defeased and the liability is not reflected in the statement of net assets. This refunding was undertaken to reduce total debt service payments over the next twelve years by $1,117,724 and resulted in an economic gain of $934,206. The difference between the reacquisition price and carrying amount of the debt resulted in a loss of approximately $995,000, which has been recorded in the government-wide statements as a deferred asset.

The City also issued $1,500,000 of Combination Tax and Revenue Certificates of Obligation, Series 2003, during FY 2003 at an effective interest rate of 4.51 percent, with all issuances scheduled to mature serially from 2004 to 2023. The 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 began withholding $18,568 monthly from the City's sales tax allocations beginning in March 2003. As of September 30, 2003, this liability is reported at $1,379,472 in the governmental activities and $681,602 in the component units of the statement of net assets. Beginning in 2003, as sales tax allocations were reduced monthly, the City recorded 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 also recorded 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, 2003, are as follows (amounts in thousands):

	Balance, October 1, 2002	Additions	Retirements and Other	Balance, September 30, 2003	Due Within One Year
General obligation debt [(1)]	$299,650	$43,430	($45,260)	$297,820	$28,270
Premium on bonds	-	2,778	(171)	2,607	-
Deferred loss on refunding	-	(995)	77	(918)	-
Accrued compensated absences	20,362	1,082	(106)	21,298	1,298
Capital lease obligation	123	1,159	(354)	928	469
Arbitrage rebate	824	1	(505)	320	-
Claims payable	8,914	9,391	(5,522)	12,783	8,613
Sales tax payable	1,491	-	(112)	1,379	149
Total	$331,364	$56,846	($51,953)	$336,257	$38,799

[(1)] The general obligation debt of $297,820 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 2023, and interest is payable semiannually at rates ranging from 2.35 percent to 7.375 percent.

The principal and interest requirements of the above general obligation debt at September 30, 2003, are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2004	$ 28,270	$ 14,904	$ 43,174
2005	26,820	13,228	40,048
2006	24,245	12,009	36,254
2007	22,010	10,915	32,925
2008	20,995	9,879	30,874
2009-2013	88,505	35,032	123,537
2014-2018	64,690	14,781	79,471
2019-2023	22,285	2,484	24,769
	$297,820	$113,232	$411,052

General obligation debt authorized and unissued as of September 30, 2003, amounted to $42,765,000.

Debt of the Enterprise Funds

The City issued $11,720,000 of Water and Wastewater System Revenue Refunding Bonds, Series 2003 during 2003 at an effective interest rate of 3.36 percent and will mature on June 1st of each year over a period from 2004 to 2015. Interest is payable June 1 and December 1 of each year commencing on June 1, 2003. Total interest requirements for these bonds, at rates ranging from 2.0 percent to 4.0 percent, aggregate $2,712,075. The bond proceeds were used to purchase U.S. Government securities which were placed in an irrevocable trust with an escrow agent for the purpose of generating resources for all future debt service payments of the refunded $11,010,000 of water and sewer system revenue bonds. As a result, the refunded bonds are considered to be legally defeased and the liability is not reflected in the statement of net assets. The refunding was undertaken to reduce total debt service payments over the next twelve years by $976,799 and resulted in an economic gain of $823,488. The difference between the reacquisition price and the carrying amount of the debt resulted in a loss of $710,000 which has been recorded in the Proprietary Funds' financial statements.

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 2.0 percent to 7.5 percent. Debt balances and transactions for the year ended September 30, 2003, are as follows (amounts in thousands):

	Balance, October 1, 2002	Additions	Retirements and Other	Balance, September 30, 2003	Due Within One Year
Waterworks and Sewer System-					
Revenue bonds	$ 94,575	$11,720	($22,645)	$83,650	$10,715
Deferred loss on refunding	-	(710)	42	(668)	-
Compensated Absences	1,729	59	-	1,788	66
Landfill Closure Liability	12,049	-	(4,418)	7,631	-
Total	$108,353	$11,069	($27,021)	$92,401	$10,781

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, 2003, 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
2004	$ 10,715	$ 3,807	$ 14,522
2005	9,355	3,303	12,658
2006	8,595	2,885	11,480
2007	7,825	2,502	10,327
2008	5,345	2,159	7,504
2009-2013	23,265	7,470	30,735
2014-2018	14,065	3,025	17,090
2019-2021	4,485	396	4,881
	$83,650	$25,547	$109,197

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 of up to $2,000,000 annually. The Bonds are due on December 31, 2008, and are callable at any time at the option of the Authority. As of September 30, 2003, $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, 2003, previously defeased debt still outstanding amounted to $67,990,000.

8. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2003 is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	$2,313	$ -
Nonmajor Funds	-	2,313
	$2,313	$2,313

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2004.

Transfers between funds during the year were as follows:

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	$ 7,614	$10,522
Debt Service Fund	-	3,227
Street Capital Projects Fund	145	2,670
Total Major Governmental Funds	7,759	$16,419
Nonmajor Funds:	20,529	11,869
Total All Funds	$28,288	$28,288

The combined Water and Sewer, Convention and Event Services, Arlington Property Finance Authority, and Sanitary Landfill Funds transferred $4,293,000 to the General Fund to cover their budgeted indirect costs.

The General Fund transferred $3,713,000 to Street Maintenance Fund, Special Transportation (Handitran), and other special revenue funds to cover budgeted operating expenses.

The Debt Service Fund received budgeted transfers of $3,227,000 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 $7,631,000 reported as a landfill closure and post-closure accrued liability at September 30, 2003, represents the cumulative amount reported to date based on the use of approximately 86 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 $529,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2003. 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, 2003. 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	$ 14,645	$3,637
Park Construction	25,064	486
Water and Sewer Construction	63,992	2,384
	$103,701	$6,507

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 Court of Appeals reversed the trial court's decision, ruling that the plaintiff has no standing to bring this lawsuit. The plaintiff has filed a petition for review of the appellate court's decision. The Texas Supreme Court has asked for responses, but has made no decision on whether it wishes to hear the appeal. 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 which will adequately capitalize the Fund through fiscal year 2006, 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 2.2 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $1,652,000 at September 30, 2003.

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 1.7 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $4,837,000 at September 30, 2003.

Group Health

Group medical benefits are paid through the Group Health Fund which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions and from City contributions for employee and dependent coverage.

The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of approximately $2,991,000. The City’s liability also includes a terminal reserve to the previous insurance company. The liability for this reserve is approximately $3,303,000 at September 30, 2003. The resulting total claims liability reported in the accompanying financial statements at present value is approximately $6,294,000.

Changes in the balances of claims liabilities during fiscal 2003 and 2002 were as follows (amounts in thousands):

Fiscal 2003	October 1	Claims and Changes in Estimates	Claim Payments	September 30
APFA	$1,568	$ 351	$ (267)	$ 1,652
Workers’ Compensation	3,889	5,267	(4,319)	4,837
Group Health	3,457	20,749	(17,912)	6,294
	$8,914	$26,367	($22,498)	$12,783
Fiscal 2002				
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

12. LEASES

A. As Lessee

As lessee, the City is committed under various leases for data processing and office equipment. These leases are considered for accounting purposes to be capital leases. The liability for future capital lease payments totals $928 and is reported as capital lease obligations current liabilities ($442) and capital lease obligations non-current liabilities ($486) in the General Services Fund and the Court Technology Fund.

Future minimum lease payments for capital leases including interest and principal are as follows (amounts in thousands):

Year ending September 30, 2003	Rental Payments
2004	$461
2005	489
2006	5
Total minimum future lease payments	955
Less: Amount representing interest	(27)
Present value of net minimum lease payments	$928

The City's investment in equipment under capital lease arrangements as of September 30, 2003 is $703,000.

B. As Lessor

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 2003 were approximately $142,000.

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
2003	$ 500,000
2004	800,000
2005	800,000
2006	800,000
2007	800,000
2008 to 2012	4,500,000
2013 to 2017	5,000,000
2018 to 2022	5,000,000
2023 to 2024	2,000,000
	20,200,000
Less Discount	8,636,000
	$11,564,000

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. 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 and the capital assets have been removed from the accounts of the Arlington Sports Facilities Development Authority. As of September 30, 2003, the lease receivable balance was $41,055,556, with a corresponding deferred revenue balance.

Minimum future rentals is as follows:

September 30	
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	13,055,556
Minimum future lease rentals	$41,055,556

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, 2003, for all discretely presented component units is as follows (amounts in thousands):

Condensed Statement of Net Assets

	Arlington Sports Facilities Development Authority, Inc. 2003	Housing Authority 2003	Nonmajor Discretely Presented Component Units 2003	Total Discretely Presented Component Units 2003
Current and other assets	$60,302	$4,697	$362	$65,361
Capital assets	1,698	492	116	2,306
Total assets	62,000	5,189	478	67,667
Long-term liabilities outstanding	17,717	-	-	17,717
Other liabilities	41,130	2,716	98	43,944
Total liabilities	58,847	2,716	98	61,661
Net assets:				
Invested in capital assets, net of related debt	(15,411)	492	116	(14,803)
Restricted	4,374	-	-	4,374
Unrestricted	14,190	1,981	264	16,435
Total net assets	$ 3,153	$2,473	$380	$ 6,006

Condensed Statement of Activities

	Arlington Sports Facilities Development Authority, Inc. 2003	Housing Authority 2003	Nonmajor Discretely Presented Component Units 2003	Total Discretely Presented Component Units 2003
Expenses	$1,154	$27,015	$3,223	$31,392
Program Revenues:				
Charges for services	2,507	-	2,740	5,247
Operating grants and contributions	-	25,936	352	26,288
Capital grants and contributions	-	11	-	11
Net Program (Expense) Revenue	1,353	(1,068)	(131)	154
Interest Revenues	139	73	8	220
Other NonTax General Revenues	2	30	3	35
Change in Net Assets	1,494	(965)	(120)	409
Net Assets, October 1	1,659	3,438	500	5,597
Net Assets, September 30	$3,153	$ 2,473	$ 380	$ 6,006

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

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
12/31/00	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%
12/31/02	316,095	397,483	81,388	79.5%	110,722	73.5%

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, 2002, 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.
** An actuarial valuation was not performed as of 7/1/2003

APPENDIX C

Vinson&Elkins
ATTORNEYS AT LAW

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August 26, 2004

$24,155,000
CITY OF ARLINGTON, TEXAS
PERMANENT IMPROVEMENT BONDS
SERIES 2004

WE HAVE represented the City of Arlington, Texas (the “City”), as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

> CITY OF ARLINGTON, TEXAS, PERMANENT IMPROVEMENT BONDS, SERIES 2004, dated July 15, 2004.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the City authorizing their issuance (the “Ordinance”).

WE HAVE represented the City as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City, customary certificates of officers, agents and representatives of the City and other public officials, and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding special obligations of the City; and

(B) A continuing ad valorem tax upon all taxable property within the City of Arlington, Texas, necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the City, including the Bonds, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law;

(2) The difference between the amount payable at maturity of each Bond maturing in each of the years 2023 and 2024 (the "Original Issue Discount Bonds"), and the "issue price," within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), of such Bonds is excludable from gross income for federal income tax purposes as original issue discount under existing law; and

(3) The Bonds are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the City and the initial purchaser with respect to matters solely within the knowledge of the City and the initial purchaser, respectively, which we have not independently verified, and have assumed 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 Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Purchasers of Original Issue Discount Bonds in the initial public offering are directed to the discussion entitled "Tax Accounting Treatment of Original Issue Discount Bonds" set forth in "SECTION TWO: THE BONDS - DESCRIPTION OF THE BONDS" of the Official Statement prepared for use in connection with the sale of the Bonds for purposes of determining the portion of the original issue discount described in paragraph 2 above which is allocable to the period such Bonds are held by such holders. The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial public offering at the initial offering price may be determined according to rules which differ from those described above and in the Official Statement.

Except as stated above, we 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 Bonds.

Owners of the Bonds 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 holding 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 such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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 is 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 Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.