NEW ISSUE/Book-Entry Only

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

In the opinion of Bond Counsel interest on the 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.

$11,720,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Refunding Bonds
Series 2003

Dated: February 15, 2003 **Due: June 1, as shown below**

The $11,720,000 City of Arlington, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2003 (the "Bonds") will be issued in fully registered form without coupons and 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 June 1 and December 1 of each year, commencing June 1, 2003.

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

FSA

Maturity Schedule

Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[(1)]	Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[(1)]
2004	$575,000	2.00%	1.15%	04184KCK9	2010	$1,475,000	3.20%	3.25%	04184KCR4
2005	990,000	2.00	1.37	04184KCL7	2011	1,445,000	3.50	3.51	04184KCS2
2006	975,000	2.00	1.73	04184KCM5	2012	1,420,000	4.00	3.70	04184KCT0
2007	960,000	2.50	2.13	04184KCN3	2013	970,000	4.00	3.82	04184KCU7
2008	940,000	2.50	2.56	04184KCP8	2014	530,000	4.00	3.94	04184KCV5
2009	920,000	3.00	2.93	04184KCQ6	2015	520,000	4.00	4.05	04184KCW3

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.

The date of this Official Statement is February 25, 2003.

(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.

CITY OF ARLINGTON

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Elzie Odom Mayor	12 years[(1)]	May, 2003	Retired
Wayne Ogle Mayor Pro Tem	7 years	May, 2003	Minister
Joe Bruner Councilmember	2 years	May, 2004	Certified Public Accountant
Sheri Capehart Councilmember	2 years	May, 2004	Computer Security Analyst
Robert Cluck, M.D. Councilmember	3 years	May, 2003	Doctor
Julia Burgen Councilmember	5 years	May, 2003	Retired
Steve McCollum Councilmember	2 years	May, 2004	Small Business Owner
Ron Wright Councilmember	2 years	May, 2004	Congressman's District Director
Pat Remington Councilmember	5 years	May, 2003	Attorney

(1) Served as Councilmember from May 1990 to May 1997.

APPOINTED OFFICIALS

Name	Position	Years of employment with City
Charles R. Kiefer	City Manager	24
William F. Studer, Jr.	Deputy City Manager - Administration	19
David M. Kunkle	Deputy City Manager - Citizen Services	18
Gayle Lacerda	Deputy City Manager - Community Resources	14[(1)]
Donna Swarb	Chief Financial Officer	4
Charles F. Anderson	Director of Water Utilities	31
Jay Doegey	City Attorney	16
Karen Barlar	Interim City Secretary	10

(1) Non-consecutive service.

ATTORNEY AND INDEPENDENT PUBLIC ACCOUNTANTS

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

USE OF INFORMATION IN OFFICIAL STATEMENT

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

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof.

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

CUSIP numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The City is not responsible for the selection or correctness of the CUSIP numbers shown on the cover page.

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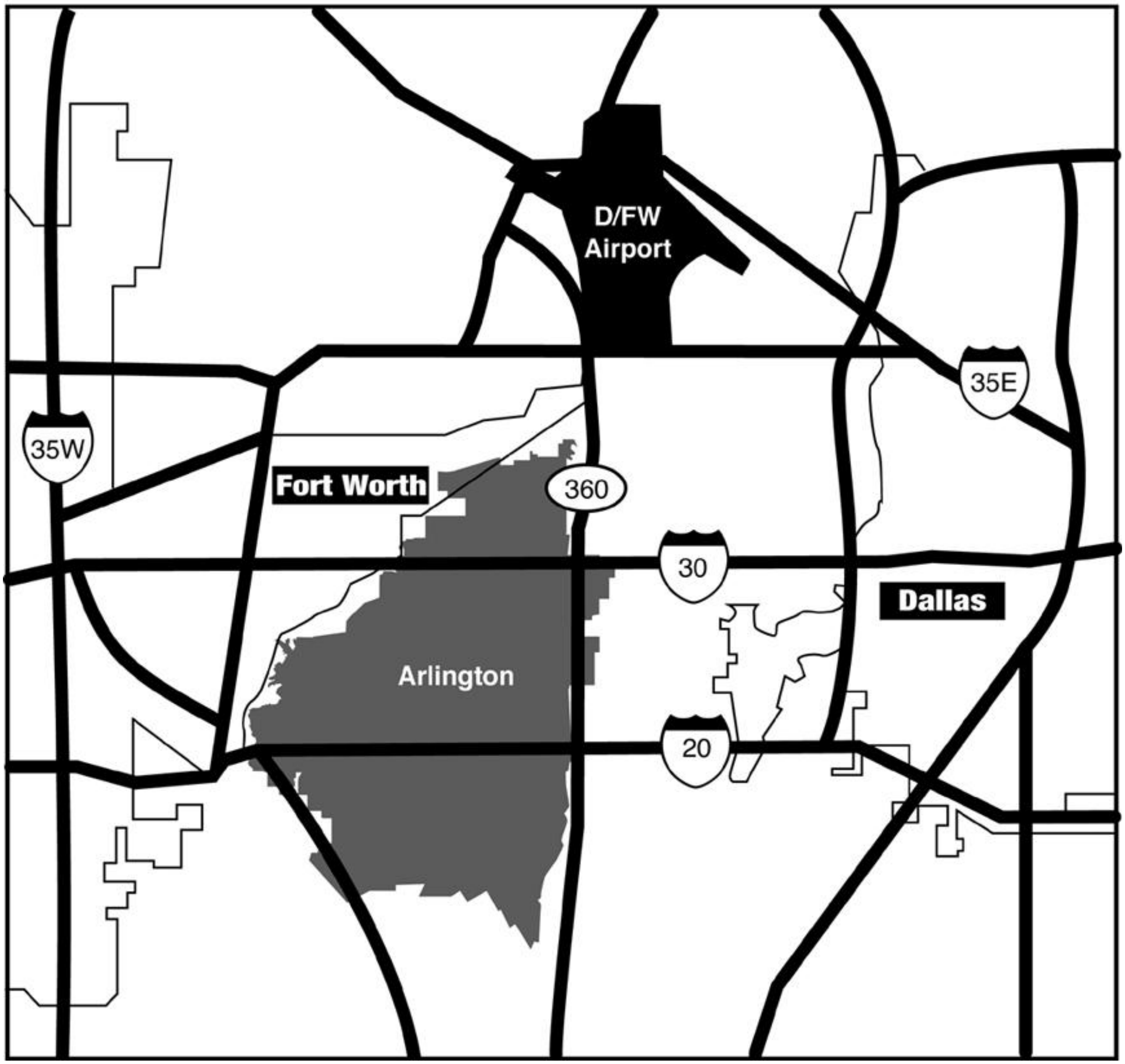
Dallas/Fort Worth/Arlington Metropolitan Area



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 346,197 residents. The City operates under a Council-Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services. The City operates its water and wastewater system and its sanitary landfill operation as self-supporting enterprise funds.

The System

The City's Water and Wastewater System (the “System”) serves a 98.7 square mile area which is relatively coterminous with the corporate boundaries of the City. Administered and managed by the Arlington Water Utilities Department, the System serves approximately 141,000 water utility units.

The City has certain water rights in Lake Arlington and contractual water rights through the Tarrant Regional Water District in the Cedar Creek and Richland Chambers Reservoirs. In addition, natural runoff from the Lake Arlington watershed adds to the total water supply. Raw water is purchased, under contract, from the Tarrant Regional Water District.

Approximately 1,163 miles of sanitary sewer mains ranging in size from six to seventy-two inches comprise the wastewater collection system that services all developed areas within the City limits. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own sewage. The wastewater produced in the City is treated by the Trinity River Authority’s Central Regional Wastewater Treatment Plant.

The Bonds

$11,720,000 City of Arlington, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2003, dated February 15, 2003, mature on the dates and bear interest at the rates set forth on the cover of this Official Statement. Interest will be paid on June 1, 2003, and on each December 1 and June 1 thereafter until the earlier of maturity or prior redemption.

Use of Proceeds

The proceeds of the Bonds are being used to refund certain maturities of the City’s Water and Wastewater System’s outstanding revenue bonds listed in Appendix D (the “Refunded Bonds”) as described in the “Section Two – The Bonds - Plan of Financing,” and to pay costs related to the issuance of the Bonds.

Security and Rate Covenant

The Bonds, together with certain outstanding previously issued bonds (the “Outstanding Bonds”) and any additional parity bonds which may be issued in the future (the “Additional Bonds”) constitute special obligations of the City payable as to principal and interest solely from and secured by a pledge of and a first lien on the Net Revenues of the System. **The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.**

The City Council has covenanted in the Ordinance that it will maintain and collect charges for the use of the facilities and the services afforded by the System sufficient to pay all operation, maintenance, depreciation, replacement and betterment charges of the System, establish and maintain the Interest and Sinking Fund and Reserve Fund required for the Outstanding Bonds, the Bonds, and any Additional Bonds, and to produce Net Revenues each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding.

Debt Service Reserve Fund

The City has covenanted that it will maintain in the Reserve Fund an amount equal to not less than the average annual principal and interest requirements on the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate such Reserve Fund Requirement in not more than 60 months from the date of such Additional Bonds. Following delivery of the Bonds, the City will accumulate additional funds into the Reserve Fund, if necessary, to meet the Reserve Fund Requirement for the Bonds and the Outstanding Bonds. See "Selected Provisions of the Ordinance - Additional Provisions."

Optional Redemption

Bonds maturing on and after June 1, 2014, are subject to redemption prior to maturity at par plus accrued interest, at the option of the City, on June 1, 2013, 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 class action lawsuit in which the plaintiff alleges that the City's street maintenance fee as approved by the City Council in October 2000 is an illegal tax. The trial court has concluded that the fee is invalid; however, a final ruling and remedy has not yet been issued by the court. The range of exposure to the City in the event of a refund ruling is $8,200,000 to $9,200,000. The probability of an unfavorable outcome cannot be determined at this time.

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

Delivery

The 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 March 27, 2003.

Paying Agent/Registrar

Payments of principal and interest will be payable by JPMorgan Chase Bank (the "Paying Agent/Registrar") to DTC or its nominee, Cede & Co., which will then remit such payments to the DTC Participants for subsequent disbursement to the Beneficial Owners of the 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 Financial Security Assurance Inc. The underlying rating for the outstanding Water and Wastewater System revenue debt of the City is rated AA+ by Fitch Ratings, Aa3 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 Legg Mason Wood Walker, Inc. (the "Purchaser"), to purchase the Bonds bearing the interest rates shown under "Maturity Schedule" on the cover of the Official Statement, at a price of eleven million seven hundred thirty-six thousand four hundred and eight dollars ($11,736,408.00) and accrued interest to the date of delivery, which resulted in a true interest cost of 3.36475 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 (February 15, 2003) 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 Purchaser 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 Purchaser. The Purchaser 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

Bond Insurance Policy

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

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

Financial Security Assurance Inc.

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

At September 30, 2002, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,728,433,000 and its total unearned premium reserve was approximately $972,390,000 in accordance with statutory accounting principles. At September 30, 2002, Financial Security's total shareholders' equity was approximately $1,928,564,000 and its total net unearned premium reserve was approximately $814,684,000 in accordance with generally accepted accounting principles.

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City made the following agreement for the benefit of the 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, Texas and The City's Water and Wastewater System; Section Four: Debt Structure and Capital Improvement Program; and Section Five: Financial Information Concerning The System." The City will update and provide this information within six months after the end of each fiscal year ending in or after 2003. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

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

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

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

Material Event Notices

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the 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. 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 is in compliance with its prior undertakings.

ADDITIONAL INFORMATION

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

SECTION TWO: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated February 15, 2003, 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 June 1, 2003, and on each December 1 and June 1 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.

PLAN OF FINANCING

Purpose

The Bonds are being issued to refund a portion of the City's outstanding Water and Wastewater System's revenue bonds in order to achieve a debt service savings and to pay the costs of issuing the Bonds. See "Appendix D – Schedule of Bonds to be Refunded" for a more complete description of the Refunded Bonds.

Refunded Bonds

Upon delivery of the Bonds, the City will enter into an Escrow Agreement with JPMorgan Chase Bank, as Escrow Agent (the "Escrow Agent"). The Escrow Agreement creates an Escrow Fund, which is to be held by the Escrow Agent and is to be applied solely to the payment of the Refunded Bonds listed in Appendix D. The Ordinance provides that from the proceeds of the sale of the Bonds received from the Purchaser and other available funds of the City, the City will deposit with the Escrow Agent for irrevocable deposit in the Escrow Fund an amount which will be invested, at the direction of the City, in direct obligations of the United States of America ("Government Securities") maturing in amounts and bearing interest at rates sufficient without reinvestment (i) to pay when due the interest on the Refunded Bonds to the first day on which they may be redeemed at the option of the City, (ii) to pay the principal of the Refunded Bonds at their stated redemption dates, and (iii) to pay the redemption prices of the Refunded Bonds at redemption prices equal to the respective principal amounts of the Refunded Bonds to be redeemed, plus interest accrued and unpaid to such redemption date. The Government Securities will be purchased from the Treasury Department of the United States of America or in the open market at interest rates which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Code, not to exceed the yield permitted by such Code. **The Escrow Fund, including the interest earnings on the Government Securities, is pledged solely for the benefit of the holders of the Refunded Bonds and will not be available to pay debt service on the Bonds.**

The Refunded Bonds have been irrevocably designated for redemption in accordance with the information set forth in Appendix D and provision has been made in the Ordinance for the giving of notice of such redemption.

By deposit of the Government Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all the Refunded Bonds in accordance with applicable law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of The Arbitrage Group, Inc., certified public accountants and consultants, the Refunded Bonds will be outstanding only for purpose of receiving payments from the Government Securities and any cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from the Net Revenues of the System nor for the purpose of applying any limitation on the issuance of debt.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

By issuing the Bonds, the City will save approximately $976,799 in debt service costs on an aggregate basis and $823,488 on a present value basis discounted at the arbitrage yield limit of the Bonds (3.31641%). The present value savings represent 7.48 percent of the par amount of the Refunded Bonds.

Verification of Mathematical Computations

The Arbitrage Group, Inc., certified public accountants and consultants, will verify the arithmetical accuracy of certain mathematical computations (a) as to the sufficiency of the monies and investments deposited in the Escrow Fund (i) to pay, when due, the interest on the Refunded Bonds from their respective interest payment dates to their respective earliest redemption dates, (ii) to pay the principal of the Refunded Bonds at their stated redemption dates, and (iii) to pay the redemption prices of the Refunded Bonds at redemption prices equal to the respective principal amounts of the Refunded Bonds to be redeemed, plus interest accrued and unpaid to such redemption date, (b) as to the yields on the Bonds and the Refunded Bonds and on the Government Securities to be purchased with the proceeds of the sale of the Bonds and the City's cash contribution and deposited in the Escrow Fund pursuant to the terms of the Escrow Agreement which was relied upon by Bond Counsel to support its opinion that interest on the Bonds will not be included in gross income for federal income tax purposes.

SOURCES AND USES OF FUNDS

The following table summarizes the anticipated application of the proceeds of the Bonds and other available moneys of the City for the purpose of issuance described above:

Sources:	
Bond Proceeds Par Amount	$11,720,000.00
Accrued Interest	42,148.75
Premium	16,408.00
Cash Contribution from City	198,746.67
Total Sources	$11,977,303.42
Uses:	
Deposit to Escrow Fund	$11,827,190.26
Issuance Expenses	91,556.41
Deposit to Interest and Sinking Fund	58,556.75
Total Uses	$11,977,303.42

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 Purchaser, 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.

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 Underwriter, 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 Purchaser, upon which Bond Counsel will rely in rendering the foregoing opinion, will be based upon records or facts the Purchaser 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 Bond certificate will be issued in the aggregate principal amount of each 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 Securities 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 Securities, 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 a maturity of an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.]

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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).

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond 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.

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

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.

Security

The Bonds are special obligations of the City and, together with the Outstanding Bonds and any Additional Bonds, are payable solely out of Net Revenues derived from the operation of the System. The Bonds shall not be a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create any lien or mortgage on the System and any judgment against the City may not be enforced by levy and execution against the property owned by the City.

The City has reserved the right to issue Additional Bonds on a parity with the Bonds and the Ordinance has provided for the funding of a Reserve Fund with respect thereto. See "Selected Provisions of the Ordinance" herein. Contractual payments for the purchase of water or the treatment of sewage shall be a maintenance and operating expense of the System to the extent provided in the contract incurred therefore and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

Rate Covenant

The City shall, at all times while any of the Bonds, Outstanding Bonds and any Additional Bonds are outstanding and unpaid, fix and maintain rates and collect charges for the facilities and services afforded by the System, which will provide revenues annually at least equal to the amount required to (a) pay for all operation, maintenance, depreciation, replacement and betterment charges of the System; (b) establish and maintain the Interest and Sinking Fund and Reserve Fund requirements contained in the ordinances authorizing the Bonds and the Outstanding Bonds, and in the ordinances relating to any Additional Bonds; and (c) produce Net Revenues (exclusive of depreciation) each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Bonds, the Outstanding Bonds, and Additional Bonds from time to time outstanding.

Optional Redemption

The City has reserved the right and option to redeem the Bonds scheduled to mature on or after June 1, 2014, prior to their scheduled maturities, in whole or in part, on June 1, 2013, or on any date thereafter, at par plus accrued interest to the date fixed for redemption in principal amount of $5,000 or any integral multiple thereof. If less than all of the Bonds are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot which of the Bonds of such maturities, or portions thereof, shall be redeemed. If any Bond (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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 (as hereinafter defined) 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" 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.

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 fifteenth calendar day of the month preceding such interest payment date (the "Record Date"), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the 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 Obligation or portion thereof, called for redemption prior to maturity, within 30 days prior to the date fixed for redemption.

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.

SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance that authorizes the issuance of the Bonds. Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and the precise wording thereof. Copies of the Ordinance are available from the Department of Finance of the City of Arlington upon request.

The Bonds are parity "Additional Bonds" as defined in the Ordinance. The Bonds, the Outstanding Bonds and any Additional Bonds hereafter issued, are and shall be equally and ratably secured by and payable from a first lien on and pledge of the Net Revenues of the System.

Definitions

(a) The term "Additional Bonds" means the additional parity bonds which the City reserves the right to issue under the Ordinance.

(b) The term "Bonds" means the City's Water and Wastewater System Revenue Refunding Bonds, Series 2003.

(c) The term "Net Revenues" means all income, revenues, and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of monies in the special Funds created by the Ordinance or ordinances authorizing the issuance of the Outstanding Bonds and any Additional Bonds) after deducting and paying, and making provision for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining "Net Revenues." Contractual payments for the purchase of water or the treatment of sewage shall be a maintenance and operating expense of the System to the extent provided in the contract incurred therefore and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

(d) The term "Outstanding Bonds" means the City's outstanding: Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 1992, authorized by an ordinance of the City Council passed on April 28, 1992; Waterworks and Sewer System Revenue Bonds, Series 1993, authorized by an Ordinance of the City Council passed on June 22, 1993; and Waterworks and Sewer System Revenue Bonds, Series 1994, authorized by an Ordinance of the City Council passed on August 16, 1994; and Waterworks and Sewer System Revenue Bonds, Series 1996, authorized by an Ordinance of the City Council passed on June 18, 1996; Waterworks and Sewer System Refunding and Improvement Revenue Bonds, Series 1997, authorized by an Ordinance of the City Council passed on June 17, 1997; Water & Wastewater System Revenue Bonds, Series 1999, authorized by an Ordinance of the City Council passed on February 9, 1999; and Water & Wastewater System Revenue Bonds, Series 2001, authorized by an Ordinance of the City Council passed on March 13, 2001; and Water & Wastewater System Revenue Bonds, Series 2002, authorized by an Ordinance of the City Council passed on March 12, 2002.

(e) The term "System" means the City's existing combined water system and wastewater system, formerly known as the City's combined waterworks and sewer system, including all properties (real, personal or mixed and tangible or intangible) owned, operated, maintained, and vested in, the City for the supply, treatment and distribution of treated water for domestic, commercial, industrial and other uses and the collection and treatment of water-carried wastes, together with all future additions, extensions, replacements and improvements thereto.

Rates

The City will fix and maintain rates and charges for the facilities and services afforded by the System which will provide revenues annually at least equal to the amount required to pay for all operation, maintenance, depreciation, replacement and betterment charges of the System; establish and maintain the Interest and Sinking Fund and Reserve Fund requirements contained in the Ordinance and in ordinances relating to the Outstanding Bonds and any Additional Bonds; and produce Net Revenues (exclusive of depreciation) each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Bonds, the Outstanding Bonds and any Additional Bonds from time to time outstanding.

Various Funds

The City covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end, the following special Funds shall be established and maintained in an official depository bank of the City so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or interest coupons appertaining thereto are outstanding and unpaid: the "Revenue Fund," the "Interest and Sinking Fund" and the "Reserve Fund."

Revenue Fund. The City shall deposit, from day to day as collected, all revenues of every nature derived from the operation of the System into the Revenue Fund and the money from time to time on deposit therein shall be appropriated to the following uses in the following order of priority, to wit: (a) to the payment of all necessary and reasonable expenses of operation and maintenance of the System as said expenses are defined by law; (b) to the Interest and Sinking Fund and Reserve Fund when and in the amounts required by the Ordinance and ordinances authorizing the Outstanding Bonds, and any Additional Bonds and for the payment of the principal of and interest on the Bonds the Outstanding Bonds and any Additional Bonds when and as due and payable and for the creation of a reserve therefore; and (c) to any other purpose of the City now or hereafter permitted by law.

Interest and Sinking Fund. The Interest and Sinking Fund shall be used solely for the purpose of paying the principal of and interest on the Outstanding Bonds, the Bonds, and any Additional Bonds as such principal matures and such interest becomes due and payable.

Reserve Fund. The City covenants and agrees that it will continuously maintain in the Reserve Fund an amount equal to not less than the average annual principal and interest requirements on the Bonds, the Outstanding Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that, upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate the amount to be deposited in the Reserve Fund in accordance with the requirements set forth in the Ordinance and the ordinances authorizing the Outstanding Bonds. For so long as the funds on deposit in the Reserve Fund are equal to the Reserve Fund Requirement, no additional deposits need to be made therein, but should the Reserve Fund at any time contain less than the Reserve Fund Requirement, then, subject and subordinate to making the required deposits to the credit of the Interest and Sinking Fund, the City shall restore such deficiency from the first available Net Revenues on deposit in the Revenue Fund. The money on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds, the Outstanding Bonds and any Additional Bonds in the event that there are not sufficient monies on deposit in the Interest and Sinking Fund for such purpose. The City may, at its option, withdraw all surplus in the Reserve Fund over the Reserve Fund Requirement and deposit same in the Revenue Fund. For the purpose of determining compliance with the aforesaid requirements, investment securities shall be valued from time to time at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

At such time as all of the Outstanding Bonds issued prior to the issuance of the City's Waterworks and Sewer System Revenue Bonds, Series 1994, are deemed to be no longer Outstanding, the City may fund the Reserve Fund Requirement with "Reserve Fund Obligations." "Reserve Fund Obligations" means cash, investment securities of any of the type or types permitted under the Ordinance, any "Credit Facility" or any combination thereof. "Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a "Rating Agency" having an outstanding rating on such obligations would rate such obligations which are fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a "Rating Agency' having an outstanding rating on the Bonds would rate the Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the bonds and the interest thereon. As used herein, "Rating Agency" means any nationally recognized securities rating agency which has assigned a rating to the Bonds.

Investment of Certain Funds. Money in any Fund established pursuant to the Ordinance or any ordinance authorizing the issuance of Outstanding Bonds, and any Additional Bonds may, at the option of the City, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or may be invested, including investments held in book entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are secured by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such manner as will permit money required to be expended from a Fund to be available at the proper time or times for the purposes thereof. Except as otherwise provided in the Ordinance or any ordinance authorizing the issuance of Outstanding Bonds or any Additional Bonds such investments shall be valued each year in terms of current market value as of the last day of the City's fiscal year. All interest and earnings derived from deposits and investments in the Interest and Sinking Fund immediately shall be credited to, and any losses shall be debited to, the Interest and Sinking Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds, the Outstanding Bonds and any Additional Bonds.

At such time as all of the Outstanding Bonds issued prior to the issuance of the City's Waterworks and Sewer System Revenue Bonds, Series 1994, are deemed to be no longer Outstanding, money in any Fund may, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law or be invested in direct obligations of, including obligations the principal and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities thereof, including in common investments of the kind described herein or in such other investments as are permitted under the Public Funds Investment Act of 1987, Chapter 2256, Texas Government Code, as amended, or any successor law as in effect from time to time.

Additional Bonds

In addition to the right to issue bonds of inferior lien as authorized by law, the City reserves the right to issue Additional Bonds under and in accordance with the Ordinance for the purpose of improving, extending, equipping and repairing the System and for the purpose of refunding, in any lawful manner, any part or all of the Bonds, the Outstanding Bonds and any Additional Bonds then outstanding. The Additional Bonds shall be secured by and payable from a first and superior lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds, the Outstanding Bonds and any Additional Bonds; and the Bonds, the Outstanding Bonds, any then outstanding Additional Bonds, and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under the Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met:

(a) The City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the Bonds or the Outstanding Bonds.

(b) Each of the special Funds created for the payment and security of the Bonds and the Outstanding Bonds contain the amount of money then required to be on deposit therein;

(c) The City has secured from a Certified Public Accountant a certificate showing that the Net Earnings of the System for either the completed fiscal year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last fifteen months next preceding the date of the Additional Bonds is equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of all bonds, which will be outstanding after the issuance of the proposed Additional Bonds. However, should the certificate of the accountant certify that the Net Earnings of the System for the period covered thereby were less than required above, and a change in the rates and charges for water and wastewater afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate, and an independent engineer or engineering firm having a favorable reputation with respect to such matters will certify, that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Earnings of the System covered by the accountant's certificate would have been, in his or their opinion, equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of the Outstanding Bonds after giving effect to the issuance of the Additional Bonds, then, in such event, the coverage specified in the first sentence of this paragraph shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by an engineer's certificate to the above effect;

(d) The ordinance authorizing the Additional Bonds requires that deposits shall be made into the Interest and Sinking Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased to an amount equal to the Reserve Fund Requirement for all Bonds to be outstanding after the issuance of said Additional Bonds. Such additional amount shall be so accumulated in not more than sixty months from the date of the Additional Bonds; and

(e) The Additional Bonds are scheduled to mature only on June 1, and the interest thereon is scheduled to be paid on June 1 and December 1.

(f) The term "Net Earnings" shall mean all income, receipts and revenues derived from the operation of the System, including interest earned on invested monies in the special Funds created for the payment and security of obligations payable from the Net Revenues, after deduction of maintenance and operating expenses but not deducting depreciation, debt service payments on the Bonds, the Outstanding Bonds and any Additional Bonds and other expenditures which, under standard accounting practice, should be classified as capital expenditures. Revenues and receipts resulting solely from the ownership of the System (grants, meter deposits and gifts) and interest earned on construction funds created from bond proceeds shall not be treated or included as income, revenues or receipts from the operation of the System for purposes of determining "Net Earnings."

Covenants by City

The City covenants that so long as any principal or interest pertaining to any of the Bonds, the Outstanding Bonds and any Additional Bonds remains outstanding and unpaid, it will not authorize or issue any further bonds of the City secured by a lien on and pledge of the revenues of the System superior or senior to the pledge and lien created herein for the Bonds, the Outstanding Bonds and any Additional Bonds, or secured by a lien on and pledge of the revenues of the System on a parity with the Bonds, the Outstanding Bonds and any Additional Bonds except in conformity with the provisions of the Ordinance.

The City covenants that the System shall be operated on a fiscal year basis and shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds, the Outstanding Bonds and any Additional Bonds are outstanding, the City agrees to maintain insurance on the System of a kind and in an amount customarily carried by municipal corporations in the State of Texas engaged in a similar type of business.

The City covenants that so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System and its component parts separate and apart from all other records and accounts of the City in accordance with accepted accounting practices prescribed for municipal corporations, and complete and correct entries shall be made of all transactions relating to the System, as provided by Chapter 1502, Texas Government Code, as amended.

For so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding, the City will not sell or encumber the physical properties of the System or any substantial part thereof; provided, however, this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System.

The City covenants that following the close of each fiscal year, it will cause an audit of such books and accounts of the System to be made by an independent firm of Certified Public Accountants which shall include, among other things, a detailed statement of the income and expenditures of the components of the System for such fiscal year; a balance sheet as of the end of such fiscal year; and a detailed statement of the source and disposition of all funds of the System during such fiscal year. Copies of these annual audits shall be immediately furnished, upon written request, to the original purchasers and any subsequent holder of the Bonds, the Outstanding Bonds and any Additional Bonds.

No free service of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

Remedies in Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in any payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, the holder or holders of any of the Bonds, the Outstanding Bonds or any Additional Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION THREE: THE CITY OF ARLINGTON, TEXAS AND THE CITY'S WATER AND WASTEWATER SYSTEM

INTRODUCTION

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

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

General

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

Mayor and City Council

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

Administration

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

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

Certain City Council Appointees

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

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

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

Principal Executive Officers

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

Deputy City Manager - Mr. William F. Studer, Jr. - with the City since June 1983, he received his B.A. from the University of Texas at El Paso and completed the course work for an M.P.A. from the University of North Texas and has completed the Harvard Program for Senior Government Executives. Prior to joining the City of Arlington, he was Assistant Director of Budget and Research for the City of Dallas.

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

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

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.

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

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.

Governmental Services and Facilities

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

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

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

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

FUNCTIONAL GROUPS

Community Resources Group

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

The Engineering Services Department consists of six areas: capital street program engineering, development program engineering, storm water utility support, real estate services, inspection, and survey. The department is responsible for all street construction, subdivision construction monitoring, and floodplain management in the City.

The Department of Transportation provides for traffic safety and street and airport operations. The Traffic Safety Division provides for the safe and efficient movement of people and goods within and across the City. The Street Division is responsible for the proper maintenance of the City's streets and drainage facilities. The Aviation Division is responsible for providing a safe flying environment for the general aviation flying public, operation of the municipal airport, and economic development activities at the municipal airport.

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

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

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

Administration Group

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

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

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

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

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

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

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

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

Citizen Services Group

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

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

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

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

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

WATER FACILITIES

Water Treatment Facilities

Arlington currently utilizes two plants to treat and purify raw water prior to distribution for use. The Pierce-Burch Water Treatment Plant (PBWTP), located in west Arlington, treats raw water pumped into the plant from Lake Arlington. The PBWTP has a present treatment capacity of 109 million gallons per day (MGD). At this time, there are no plans to expand the plant. However, land is available at the site to accommodate an additional 100 MGD capacity treatment facility in the future, if needed.

The rapid population growth and development in the southern part of the City necessitated the construction of the John F. Kubala Water Treatment Plant (JFKWTP), located on US Highway 287 at Eden Road. The JFKWTP began serving Arlington's citizens in May 1989. The plant receives its raw water directly from the Tarrant Regional Water District's Richland Chambers and Cedar Creek pipelines. The JFKWTP currently has a rated treatment capacity of 65 MGD. It will be expanded as demand necessitates to an ultimate treatment capacity of 130 MGD.

The Distribution System

The City's water distribution system is divided into two pressure planes, referred to as the upper and lower. The upper-pressure plane is supplied by JFKWTP, which is a newer, more energy efficient plant and is operated at maximum capacity whenever possible. The Pierce-Burch Plant supplies the remaining volume necessary to meet citywide demand in the lower pressure plane. With this arrangement, the JFKWTP supplies all of the water to the upper pressure plane and a portion of the water that is needed in the lower pressure plane whenever possible throughout the year. A combination of electrically driven and natural gas pumps transfer water from the plants into the distribution system. There are nine elevated storage tanks and nine ground storage tanks with a combined capacity of 46.5 million gallons.

The City's water distribution system is fully metered and consists of 1,414 miles of concrete cylinder, cast iron, poly-vinyl chloride (PVC), and ductile iron pipes with a minimum diameter of six inches. The entire system meets the minimum standards prescribed by the Texas Fire Insurance Commission, the United States Environmental Protection Agency, and the Texas Commission On Environmental Quality.

The City's water system has adequately met the demand for treating and distributing water during the past ten fiscal years as follows:

Fiscal Year	Average Daily Production (MGD)	Maximum Daily Production (MGD)
92-93	47.85	99.37
93-94	45.92	84.68
94-95	46.71	95.50
95-96	52.08	92.57
96-97	49.53	99.48
97-98	58.47	121.97
98-99	56.20	108.31
99-00	63.89	128.23
00-01	57.96	113.14
01-02	57.76	112.47

Source: City Water Utilities Department.

Water Supply

The Tarrant Regional Water District (the "District") is the primary supplier of raw water used by a total of 40 municipal and non-municipal entities located both within and outside Tarrant County. Among the major municipal customers of the District are the Cities of Fort Worth, Arlington, and Mansfield and the Trinity River Authority (the "TRA").

The City receives water from the District's Cedar Creek and Richland Chambers Reservoirs through transmission facilities to Lake Arlington and the John F. Kubala Water Treatment Plant. Beginning in August 1998, the District also began delivering water from the U.S. Army Corps of Engineers-owned reservoir Lake Benbrook. This service was initially provided under the terms and provisions of a water supply contract dated July 13, 1971. Under that contract, the District agreed to supply all of the City's municipal water requirements during its term.

On September 1, 1982, the District entered into a revised water supply contract ("Amendatory Contract") with the City, and the Cities of Fort Worth and Mansfield, and the TRA. The revised contract shall continue in effect until all bonds of the District relating to the District's System have been paid, and thereafter during the useful life of the District's System. Under the Amendatory Contract, the City is required to purchase all of its raw water needs from the District. The District is obligated to meet those needs by developing additional water supply sources; subject to force majeure, the ability of the District to obtain suitable financing, and a determination of feasibility. If the District is unable to supply all of the City's raw water requirements or if it should become apparent that the District will become unable to supply such requirements, the Amendatory Contract provides a procedure by which the City would be permitted to develop or obtain a supplemental water supply to meet its needs. The City is depending upon the District to meet its full raw water needs under the Amendatory Contract and, at present, the City has no assurance of the availability of a supplemental water supply if the District should fail to meet such needs. The District’s current sources as well as additional supplies that are actively under development are projected to provide an adequate water supply through 2035.

In January 1992, the District issued $400,750,000 of Water Revenue Refunding and Improvement Bonds, Series 1992 and $30,910,000 of Water Revenue Refunding Bonds, Series 1992-A. Additionally, the District issued Water Revenue Refunding Bonds for $328,495,000 in September 1993, Water Revenue Refunding and Improvement Bonds for $22,725,000 in May 1999, and $331,430,000 of Water Revenue Refunding and Improvement Bonds in December 2002. As of January 2003, the District had $385,675,000 of water revenue bonds outstanding with a final maturity of March 1, 2022. Construction of the Richland Chambers Dam and Reservoir Project was funded with proceeds derived from the sale of $342,750,000 of the District's Water Revenue Bonds, Series 1979-A and the District's Water Revenue Bonds, Series 1986, in the amount of $57,600,000.

The Richland Chambers Dam and Reservoir is located in Freestone and Navarro Counties, southeast of the City of Arlington. The dam was completed in November 1987. Part of the Series 1992 Bond Issue ($50,000,000) was used to construct the Benbrook Connection Project consisting of approximately 35,000 feet of 90 inch diameter pipeline, approximately 20,000 feet of 108 inch diameter tunnel, a pump station at Lake Benbrook with a capacity of approximately 200 million gallons per day, an outlet structure at Lake Benbrook, and improvements to the existing balancing reservoirs. The project was completed in the fall of 1998. It now benefits all District customers by allowing the District to reduce electrical costs by using Benbrook for off peak pumping and storage.

Freese and Nichols, Inc., the District's consulting engineers, estimate that the District's existing water supply system has adequate water to meet its customers' projected water requirements through the year 2016. The District has participated in the statewide regional water planning effort authorized by the 1997 passage of Senate Bill 1. The regional plan for the Dallas-Ft. Worth region includes plans for the District to develop an additional 253 MGD through the year 2050 at an estimated cost of $1.16 billion.

Under the terms of the Amendatory Contract, the City pays the District an amount equal to the City's proportionate share of the District's "Annual Requirement." Said annual requirement includes the costs of operation and maintenance of the District's raw water supply facilities, debt service on the District's bonds and any future bonds it might issue, including deposits to any special or reserve fund established in the District's bond resolutions. Based upon the projected water usage of the City for the 2002-03 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,163,962 which results in a rate of approximately 60.994 cents per one thousand gallons. Such amount is subject to adjustment as provided in the Amendatory Contract. The City is obligated to pay the District for all water used by it, and under the Amendatory Contract, the minimum amount of water the City shall be deemed to have used shall be calculated at an amount equal to the greater of 30 MGD or the average MGD actually used by the City during the period of the immediately preceding five consecutive annual periods (59.773 MGD as of September 30, 2002).

The Amendatory Contract provides that all payments to be made under said Contract shall constitute reasonable and necessary operating expenses of the System, and thus the City's requirements to make such payments from the revenues of the System shall have priority over any obligation to make payments from such revenues, including payment of principal and interest on the City's Outstanding Bonds, the Bonds and any Additional Bonds.

Drought Contingency Plan

The City has historically worked closely with the District to plan for the implementation of drought contingency measures should drought conditions arise. The District updated its Water Conservation and Emergency Demand Management Plan in 1998. The District's customers had extensive input in defining drought conditions and prescribing conservation measures related to each drought condition. In addition, customers agreed to specify measures related to emergency conditions should drought-induced demands or components of the District's system fail. In conjunction with the District, the City adopted Emergency Water Management and Water Conservation Plans in October 1999.

The District's Drought Contingency Plan defines four drought conditions. For the two minimal drought conditions to occur would require peak demands to be applied with minimal reservoir inflow conditions for a period exceeding 18 months. These two minimal conditions would not have any significant effect on the City due to its ongoing educational program that promotes voluntary water conservation regardless of weather conditions.

The more serious drought conditions would have peak demands and weather conditions similar to those experienced in 1996 and 1998-2000 continuing unabated for an approximate 36-month period. These more serious drought conditions would result in restricted outside water use.

Due to this proactive approach to addressing drought conditions combined with historical planning and system development initiatives, the City does not anticipate any system supply problems. However, steps will be taken in the event of a prolonged drought to insure that the financial condition of the System remains strong.

Consumer Analysis Data

The following data provides information as to the average daily water consumption, excluding sales to municipalities, by user category for the fiscal years ended September 30, 1998, through September 30 2002.

Average Daily Consumption (MGD)

Category	**2002**	**2001**	**2000**	**1999**	**1998**
Residential	26.07	29.43	30.45	26.71	28.99
Commercial	11.61	15.46	15.27	13.69	13.76
Fire lines, Sprinklers*	3.98	-	-	-	-
Apartment Units	9.64	10.08	10.26	10.10	9.70
Mobile Homes, Condominiums, Townhouses	.87	.67	.68	.66	.72
Total	52.17	55.64	56.66	51.16	53.17

*Fire lines and Sprinklers data included with other categories prior to fiscal year 2002.
Source: City Water Utilities Department.

The following table shows the number of units served, excluding sales to municipalities, by user category for the fiscal years ended September 30, 1998, through September 30, 2002.

Number of Units Served

Category	2002	2001	2000	1999	1998
Residential	84,774	84,926	82,673	80,548	78,650
Commercial	5,507	7,258	7,112	6,828	6,585
Fire lines, Sprinklers*	925	-	-	-	-
Apartment Units	45,397	46,057	45,206	44,355	43,979
Mobile Homes, Condominiums, Townhouses	4,252	4,043	4,016	4,026	4,024
Total	140,855	142,284	139,007	135,757	133,238

*Fire lines and Sprinklers data included with other categories prior to fiscal year 2002.
Source: City Water Utilities Department.

The following is a listing of the top ten water customers of the City, ranked by consumption during the fiscal year ended September 30, 2002. During this period, their total annual water billings, which represented 9.0 percent of the System's water sales were as follows:

	Consumption in 1,000 Gallons	Billing
National Semiconductor	508,233	$1,280,080
General Motors	327,928	781,460
City of Arlington	194,144	613,615
University of Texas at Arlington	163,730	345,616
Arlington Independent School District	150,746	426,182
Arlington Memorial Hospital	94,995	219,332
Six Flags Park	94,118	494,948
Hurricane Harbor	77,813	147,501
Oakwood Apartments	53,532	232,259
Park Lane Apartments	51,769	109,721
Total	1,717,008	$4,650,714

Source: City Water Utilities Department.

The following table lists certain data on historical water consumption during the last five fiscal years.

Historical Water Consumption Data
(Inside City Limits)

Fiscal Year Ended 9/30	Total Accounts In Service	Total Water Pumped MG	Average Water Pumped MGD	Maximum Day Pumpage MGD	GPD Per Account	Ratio Maximum Day to Average Day
1998	87,629	21,343	58.47	121.97	667	2.09
1999	89,905	20,511	56.20	108.31	625	1.93
2000	92,378	23,389	63.90	128.23	692	2.00
2001	94,867	21,157	57.96	113.14	611	1.95
2002	96,974	21,083	57.76	112.47	596	1.95

Source: City Water Utilities Department.

WASTEWATER FACILITIES

The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,163 miles of sanitary sewer mains ranging in size from six to seventy-two inches. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own wastewater. Wastewater produced in the City is treated under contract by TRA's Central Regional Wastewater System (the "CRWS"). The City's annual volume of contributing flow amounts to approximately 30 percent of the total wastewater flow into the CRWS Plant. As the City with the largest population in the CRWS service area, Arlington contributes the highest daily flow of all TRA regional plant customers. The CRWS Plant meets the effluent permit conditions to treat 162 MGD as set by the Texas Commission on Environmental Quality (TCEQ) and the Environmental Protection Agency (the "EPA").

The following is a list of Arlington's wastewater flows treated by the TRA and Fort Worth plants during the last five fiscal years.

Wastewater Treated
(Millions of Gallons)

	2002	2001	2000	1999	1998
TRA CRWS Plant	16,015	16,374	10,502	8,856	8,630
Fort Worth Village Creek Regional Plant	0	0	4,297	4,864	4,769
Total	16,015	16,374	14,799	13,720	13,399

Source: City Water Utilities Department.

Treatment Contract with Trinity River Authority

The City's wastewater is treated under the terms of a 50-year contract with TRA dated October 10, 1973. TRA is the owner and operator of the CRWS Plant and the interceptor pipeline system, which serves part of Dallas, Dallas-Fort Worth International Airport, and 19 other Dallas County and Tarrant County municipalities. Under the terms of the contract, each contracting party contributes to the TRA's "Annual Requirements" in proportion to its contributing flow of wastewater into the CRWS Plant. The "Annual Requirements" include cost of operation and maintenance of the system and debt service on TRA's bonds issued to construct the system, including deposits to special funds established by the bond resolution. Based upon actions approved in 1996, TRA began treating all of Arlington's wastewater when facilities constructed by Arlington were completed in September 2000. These pipeline facilities convey west Arlington wastewater to TRA System facilities, and on to the TRA treatment plant for final treatment. This pipeline project cost from Arlington to TRA was $11,000,000. The transfer of Arlington's wastewater flows from the Fort Worth Village Creek Regional Plant to this pipeline began in September 2000. Cash balances of the Water Utilities Department funded this project.

In 1989, TRA sold $134.75 million in System Revenue Bonds to fund an expansion of the system's treatment plant from 100 to 135 MGD, which was placed into operation in early 1994. Subsequently in 1992, an additional $33.0 million in System Revenue Bonds were issued to fund improvements required primarily in the system's 200 mile network of large diameter pipelines over the first half of a five-year planning period. These latter improvements will increase capacity in the pipelines, rehabilitate pipelines, and initiate several engineering evaluations to define required improvements to the plant and pipelines in the future. In 1995, TRA issued $43.515 million in System Revenue bonds to fund the remaining portions of the 1992-1996 capital plan. A new five-year plan for 1997-2001 has been initiated to rehabilitate interceptors and accomplish plant improvements. Initial funds of $49 million were obtained from the 1998A bond issue. The balance of the $64 million 1998A bond issue was utilized in 2001. Also in 1998, $67 million in bonds were refunded through TRA's issuance of the 1998B Revenue Refunding Bonds. In 2001 TRA issued an additional $88.2 million in System Revenue Bonds through the Texas Water Development Board for plant improvements and relief pipeline construction. In early fiscal year 2003 TRA issued $136 million in refunding bonds to pay off the Series 1993 bonds. This results in a debt service savings to the City.

At present, the 162 MGD CRWS Plant is situated on a 500 acre site in Grand Prairie. The CRWS Plant uses a conventional activated sludge process enhanced for nitrification followed by filtration. Effluent quality discharged to the West Fork of the Trinity River has been excellent and meets all regulatory requirements. The plant was selected by the state and federal regulatory agencies as the best large treatment plant in EPA's Region 6 five-state area during 1996 and has received AMSA's Gold Award for the past seven years in a row. A portion of the treated effluent is delivered for beneficial reuse to lakes in the Las Colinas area of Irving where it is used for irrigation and lake and canal level control. Revenue from this sale is credited to the parties of the System.

Plant solids removed by this treatment plant are now being beneficially reused by a land application program, which exports all biosolids from the plant site. An onsite sludge monofil exists with a 20-year remaining life, as a backup to the land application program, and to provide an alternative disposal method in the event contractor failure or other unanticipated failure occurs.

For TRA's fiscal year beginning December 1, 2002, the volume of contributing flow by the City is estimated to average 45.46 MGD, which amounts to approximately 30.27 percent of total volume of wastewater flow into the CRWS plant. This percentage of wastewater flow is used to determine the City's annual requirements under this contract. Arlington has the largest service area population and contributes the highest average daily flow of all TRA CRWS plant customers. The City's current cost of wastewater treatment under this contract budgeted for 2003 is $16,816,092. Annual payments made to TRA under this contract are made prior to any payments on the Outstanding Bonds.

In addition, the City is a party to a contract (the "Arlington Project Contract") dated October 10, 1973, under which TRA constructed certain improvements to the City's System with the proceeds of its revenue bonds, which the City, by the terms of the contract, was to pay, together with certain fees and administrative overhead. The payment of these bonds was completed in August 2000, as was the final administrative overhead payment.

The facilities constructed by TRA related to the Arlington Project Contract are integral parts of the System and are maintained and operated by the City. Ownership of such facilities was vested in the City when all of the TRA bonds were paid. The improvements to the System financed by TRA consist of the raw water pumping station on Lake Arlington and certain major wastewater collection lines.

Treatment Contract with City of Fort Worth

Until September 2000, approximately 35 percent of the City’s wastewater was treated at the City of Fort Worth’s Village Creek Regional Plant. Under the terms of a five-year contract, dated July 11, 1996, the City completed the pipeline and other facilities to divert its wastewater and sludge to the Trinity River Authority’s CRWS Plant. The City has negotiated a contract with Fort Worth for the transportation charges associated with the right to divert excess wastewater from their Village Creek Interceptor to the Arlington Rush Creek Interceptor until improvements can be constructed by Fort Worth to carry this flow or until the treatment capacity allotted to the City is maximized.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

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

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

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

(1) Actual 2000 Census population.

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

Per Capita Personal Income

	2000	1999	1998
Tarrant County	$30,110	28,487	$27,455
Texas	28,035	26,237	25,398
United States	29,770	27,880	26,893

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

Educational Facilities

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

The University of Texas at Arlington, founded in 1895, features a current enrollment of 23,821 and offers 183 degree programs at the baccalaureate, master and doctoral levels. The physical plant, located on a 392 acre campus, includes 99 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 8,425 students. The college has 352 employees. The college offers Associate degrees in Arts, and Applied Sciences and various technical certificates.

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

Public School Enrollment
Arlington Independent School District

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

Source: Arlington Independent School District.

Employment

Arlington Major Employers

Name	Type of Business	Number of Employees
Arlington Independent School District	Public Education	7,927
University of Texas at Arlington	Higher Education	4,417
Six Flags Over Texas	Amusement Park	3,200
Americredit	Finance	3,000
City of Arlington	Municipality	2,367
General Motors	Automobile Assembly	2,000
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 the first eleven months of 2002, the City's unemployment rate averaged 5.2 percent as compared to the 2002 U.S. rate of 5.8 percent and the 2002 Texas rate, which was 6.1 percent.

Unemployment Rate
Annual Average Rates
1998 to 2002

	2002	2001	2000	1999	1998
Arlington	N/A	3.6%	2.8%	2.7%	2.9%
Texas.......................................	6.1	4.9	4.3	4.6	4.8
United States............................	5.8	4.8	4.0	4.2	4.5

Source: U.S. Bureau of Labor Statistics.

Financial Institutions

There are twenty-eight commercial banks and savings and loan associations operating a total of 56 free standing and 6 in-store branches in the City.

Building Permits

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

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

Source: City Building Inspections Division.

INVESTMENTS

The City invests its funds in investments authorized by Texas law in accordance with investment policies approved by the City Council 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.

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 September 30, 2002, the following percentages of the City's operating funds were invested in the following categories of investments:

Type of Investment	% Invested
U.S. Treasury Notes & Bills	49.5%
Federal Agencies	38.2
Statewide Pool	10.3
Money Market Account	2.0
Totals	100.0%

As of September 30, 2002, the weighted average maturity of the City's operating portfolio was 144 days and the market value of the operating portfolio was 99.76 percent of its book value.

SECTION FOUR: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM

The following table sets forth the debt service requirements on the Outstanding Bonds of the Water and Wastewater System, formerly known as the Waterworks and Sewer System.

DEBT SERVICE REQUIREMENTS
WATER & WASTEWATER SYSTEM REVENUE BONDS

Fiscal Year Ending 9/30	Outstanding Bonds[1] Principal	Outstanding Bonds[1] Interest	Series 2003 Bonds[2] Principal	Series 2003 Bonds[2] Interest	Less Refunded Bonds Principal	Less Refunded Bonds Interest	Total Debt Service
2003	$11,635,000	$2,349,246	$ -	$ 64,227	$ -	$ (308,400)	$13,740,073
2004	10,560,000	4,062,208	575,000	361,275	(420,000)	(616,800)	14,521,683
2005	9,205,000	3,549,753	990,000	349,775	(840,000)	(596,220)	12,658,308
2006	8,460,000	3,107,058	975,000	329,975	(840,000)	(551,700)	11,480,333
2007	7,705,000	2,698,143	960,000	310,475	(840,000)	(506,550)	10,327,068
2008	5,245,000	2,333,288	940,000	286,475	(840,000)	(460,770)	7,503,993
2009	5,225,000	2,082,238	920,000	262,975	(840,000)	(413,835)	7,236,378
2010	5,200,000	1,828,844	1,475,000	235,375	(1,415,000)	(366,375)	6,957,844
2011	4,580,000	1,573,402	1,445,000	188,175	(1,415,000)	(285,853)	6,085,724
2012	4,265,000	1,347,035	1,420,000	137,600	(1,415,000)	(205,330)	5,549,305
2013	3,845,000	1,129,292	970,000	80,800	(995,000)	(124,388)	4,905,704
2014	3,425,000	933,020	530,000	42,000	(575,000)	(66,125)	4,288,895
2015	3,420,000	760,637	520,000	20,800	(575,000)	(33,063)	4,113,374
2016	2,840,000	587,195	0	0	0	0	3,427,195
2017	2,240,000	446,250	0	0	0	0	2,686,250
2018	2,240,000	335,250	0	0	0	0	2,575,250
2019	1,840,000	224,250	0	0	0	0	2,064,250
2020	1,840,000	132,250	0	0	0	0	1,972,250
2021	805,000	40,250	0	0	0	0	845,250
	$94,575,000	$29,519,609	$11,720,000	$2,669,927	$(11,010,000)	$(4,535,409)	$122,939,127

[1] As of February 15, 2003
[2] FY 2003 interest is net of accrued interest.

Source: City Finance Department.

WATER AND WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

The City's Water Utilities Department maintains a program of annually updating its estimate of foreseeable System capital improvements. This is accomplished through the joint efforts of the Engineering Division of the Water Utilities Department and independent-consulting engineers. The Water Utilities Department annually reviews its proposed Capital Improvement Program with the City Council.

The following table represents the estimated amount of financing needed to meet the proposed Capital Improvement Program for the five fiscal years shown but does not include any improvements for the Trinity River Authority or the Tarrant Regional Water District. The City's Water Utilities Department estimates that 56 percent of the capital funds needed will be used for improvements to the Water System and the remaining 44 percent for improvements to the Wastewater System.

Proposed Capital Improvement Program

Fiscal Year	Planned Capital Expenditures	Planned Bond Sale	Other Capital Financing Sources[1]
2002-2003	$23,500,000	$15,000,000	$ 8,500,000
2003-2004	24,750,000	15,000,000	9,750,000
2004-2005	24,750,000	15,000,000	9,750,000
2005-2006	24,750,000	15,000,000	9,750,000
2006-2007	24,750,000	15,000,000	9,750,000

(1) Theses include annual budgeted amounts for the water and wastewater main replacement program, cash contributions from the operating fund to the capital fund, and remaining bond proceeds.

SECTION FIVE: FINANCIAL INFORMATION CONCERNING THE SYSTEM

WATER AND WASTEWATER RATES

The Council is authorized by its home rule charter and by laws of the State of Texas to establish and to amend rates charged for water and wastewater service. Rates so fixed by the Council for domestic application are not subject to review by any other regulatory agency.

In January 1989, the Water Utilities Department implemented a demand commodity rate structure. The two components of the rate structure are a fixed monthly charge based upon meter size and a charge per 1,000 gallons used. The fixed charge, which through fiscal year 2002 included the first 2,000 gallons of consumption, increases with meter size to recognize the additional demands that large meter installations place on the system, while the commodity charge is the same for all customers. The rate structure distributes the cost of servicing customers more equitably.

The Council adopted an ordinance beginning in fiscal year 2003, that removes the 2,000 gallon volume credit from the water fixed monthly charge and for all meter sizes decreases the water fixed monthly charge by $4.20. This change will not negatively impact customers and will have a positive impact for minimum users. Because the City continues to focus staff efforts on increasing efficiencies and reducing costs, the water and wastewater rate per 1,000 gallons will stay the same and the fixed monthly charge for wastewater remains unchanged since its inception in 1989. Following is a listing of current monthly rates:

Water Rates Effective 10/1/02

Meter Size	Monthly Charge	Consumption Charge
3/4"	$ 3.40	$2.10/1,000 gallons
1"	7.70	2.10/1,000 gallons
1 1/2"	20.75	2.10/1,000 gallons
2"	38.05	2.10/1,000 gallons
3"	90.10	2.10/1,000 gallons
4"	159.45	2.10/1,000 gallons
6"	367.50	2.10/1,000 gallons
8"	575.55	2.10/1,000 gallons
10"	864.55	2.10/1,000 gallons

Wastewater Rates Effective 10/1/02
(based on water consumption)

Meter Size	Monthly Charge	Flow Charge
3/4"	$ 3.05	$2.40/1,000 gallons
1"	5.30	2.40/1,000 gallons
1 1/2"	11.95	2.40/1,000 gallons
2"	20.90	2.40/1,000 gallons
3"	47.60	2.40/1,000 gallons
4"	83.30	2.40/1,000 gallons
6"	190.25	2.40/1,000 gallons
8"	297.25	2.40/1,000 gallons
10"	445.85	2.40/1,000 gallons

The first 2,000 gallons of flow is included in the wastewater fixed monthly charge. The wastewater flows billed for residential customers is the lesser of the current month's water consumption or the prior winter months' average of the three lowest month's consumption using the period December through March.

Historical Rate Adjustments

Changes in revenue requirements during the past ten years have resulted in the following changes in rates for the average residential customer. An average residential customer uses 10,000 gallons of water. Until December of 1988, they were also billed for up to 12,000 gallons of wastewater flows. At that time, the wastewater maximum for residential customers was reduced to 9,000 gallons. Since March 1990, wastewater flows have been based on average winter water consumption. Each residential customer's maximum wastewater flows are calculated based on their water use during the period of December through March. The overall system average for a residential customer is approximately 6,000 gallons.

Rate Changes by Percent
Last Ten Fiscal Years
Per 10,000 Gallon Residential Usage

Fiscal Year	Water	Wastewater	Total
1994	1.6	0.0	1.1
1995	0.0	0.0	0.0
1996	0.0	5.1	1.6
1997	1.6	0.0	1.1
1998	0.0	0.0	0.0
1999	0.0	0.0	0.0
2000	(3.2)	0.0	(2.1)
2001	(1.6)	0.0	(1.1)
2002	1.7	1.6	1.7
2003	0.0	0.0	0.0

Source: City Water Utilities Department.

Customer Service Billing System

In January 2001, the Mayor and City Council approved a contract for the purchase of a replacement billing system. The new system provides the opportunity for enhanced customer service through procedural and policy changes that were not possible with the previous system. Implementation of the new system occurred in several phases during fiscal year 2002 and is currently in operation.

Operating Reserve

The current policy authorized by the City Council on August 17, 1999, requires the operating reserve to equal 60 days of the proposed operating and maintenance budget expenses, excluding debt service. Fiscal year 2002 water and sewer revenues were significantly below budget due to a wet and cool year. Additionally, economic conditions adversely impacted interest revenue and development fees. The reserve was reduced to $9,399,878 ($816,050 reduction) in January 2003 in order to balance the fiscal year 2002 budget. The reserve fund balance for fiscal year 2003 will be $9,722,036, an increase of $322,158.

HISTORICAL FINANCIAL INFORMATION

The following three tables present five-year historical information and selected financial ratios for the System. Unless otherwise noted, all information is from the City's Comprehensive Annual Financial Report. Selected amounts and ratios in the tables are unaudited as noted. **Information for Fiscal Year 2002 is unaudited and subject to change.** The tables are titled Water and Wastewater Statement of Net Assets, Historical Net Revenues Available for Debt Service, and Historical Net Revenues of the System and Financial Ratios.

WATER AND WASTEWATER SYSTEM STATEMENT OF NET ASSETS
Fiscal Year Ended September 30,
(amounts in thousands)

Assets	2002 [(1)]	2001	2000	1999	1998
Cash and cash equivalents	$ 6,748	$ 13,235	$ 15,413	$ 15,886	$ 19,201
Receivable (net of allowances for uncollectibles)	12,500	11,236	14,713	12,889	12,957
Inventory of supplies, at cost	406	469	469	411	464
Restricted assets:					
Bond contingency	12,282	11,891	10,966	11,840	11,307
Capital/Bond construction	35,295	24,697	22,250	20,652	21,155
Meter deposits	3,522	3,264	3,227	3,137	2,985
Property, plant and equipment less accumulated depreciation	378,747	362,488	335,470	320,036	286,410
Total Assets	$449,500	$427,280	$402,508	$384,851	$354,479
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	$ 3,766	$ 4,071	2,250	$ 2,534	$ 2,510
Retainage payable	-	-	-	-	10
Payable from restricted assets	10,871	10,342	11,450	10,867	12,881
Accrued compensated absences					
Current	55	92	79	74	70
Non Current/Long Term	1,575	1,352	1,272	1,206	987
Revenue bonds, net of discount, payable from unrestricted assets	90,720	87,048	79,259	89,608	82,572
Trinity River Authority bonds payable from unrestricted assets	-	-	-	146	322
Total Liabilities	106,987	102,905	94,310	104,435	99,352
Net Assets/Equity:					
Contributed capital -					
From other municipalities or governmental units	-	9,097	9,097	9,097	9,097
In aid of construction	-	110,031	104,061	98,551	94,208
Retained earnings -					
Reserved	-	6,335	5,959	6,465	6,415
Unreserved	-	198,912	189,081	166,303	145,407
Invested in Capital Assets	288,027	-	-	-	-
Restricted	40,228	-	-	-	-
Unrestricted	14,258	-	-	-	-
Total Assets/Equity	342,513	324,375	308,198	280,416	255,127
Total Liabilities and Net Assets/Equity	$449,500	$427,280	$402,508	$384,851	$354,479

[(1)]Unaudited, preliminary subject to change.

HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE
Fiscal Year Ended September 30,
(amounts in thousands)

Revenues	**2002**[1]	**2001**	**2000**	**1999**	**1998**
Water Sales	$45,855	$39,901 [2]	$50,818	$46,924	$48,477
Wastewater Service	29,733	29,366	29,546	28,408	27,763
Interest Income [3]	1,893	3,462	3,461	2,719	4,473
Other Income	5,159	5,214	5,420	5,723	5,045
Total Revenues	$82,640	$77,943	$89,245	$83,774	$85,758
Expenses					
Labor Costs	$12,366	$11,591	$10,850	$ 9,864	$ 9,311
Supplies	1,898	2,352	1,949	1,646	2,052
Maintenance	2,361	1,945	1,911	1,457	1,842
Water Supply (The District)	13,059	12,394	13,698	12,214	12,593
Wastewater Treatment Contracts	16,091	14,601	14,140	13,358	12,029
Utilities	1,392	2,482	2,150	1,964	1,881
Other Expenses	10,315	10,197	10,825	10,154	10,008
Total Operating Expenses Before Depreciation	$57,482	$55,562	$55,523	$50,657	$49,716
Net Revenues of the System	$25,158	$22,381	$33,722	$33,117	$36,042
Interest During Construction Included Above	(474)	(641)	(111)	(284)	(588)
Net Revenues Available for Debt Service	$24,684	$21,740	$33,611	$32,833	$35,454
Debt Service Paid[4]	$16,234	$15,021	$15,567	$14,753	$16,252
Debt Service Coverage (times) [5]	1.52x	1.45x	2.16x	2.23x	2.18x
Debt Service Requirements Paid From Surplus Net Revenues[6]	-	-	$185	$295	$205

(1) Unaudited, subject to change.
(2) Gross operating revenues in fiscal year 2001 reflect a refund of $7.0 million.
(3) Includes net increase/decrease in fair value of investments beginning in fiscal year 1997-98.
(4) Excludes TRA Revenue Bonds, accrued interest from bond sales, and refundings or cash defeasances.
(5) Unaudited.
(6) TRA (Arlington Project) Revenue Bonds.

HISTORICAL NET REVENUES OF THE SYSTEM AND FINANCIAL RATIOS
Fiscal Year Ended September 30,
(amounts in thousands)

	2002[1]	2001	2000	1999	1998
Gross Operating Revenues	$80,747	$74,481[2]	$85,784	$81,055	$81,285
Interest Revenues (Excluding Interest During Construction) [3]	1,419	2,821	3,350	2,435	3,885
Operating Expenses Before Depreciation	57,482	55,562	55,523	50,657	49,716
Net Revenues Available for Debt Service	$24,684	$21,740	$33,611	$32,833	$35,454
Average Annual Debt Service [4]	$6,664	$6,335	$5,959	$6,465	$6,356
Average Annual Debt Service Coverage (times) [3]	3.70x	3.43x	5.64x	5.08x	5.58x
Accounts Receivable to Gross Operating Revenues (%)	15.48%	15.08%	17.15%	15.90%	15.94%
Unrestricted Cash to Unrestricted Current Liabilities (times)[5]	1.77x	3.18x	6.62x	6.09x	7.41x
Unrestricted Current Assets to Unrestricted Current Liabilities (times)[5]	5.04x	5.88x	12.94x	11.03x	12.42x
Long-term Debt to Net Plant (%)	22%	22%	22%	26%	27%

(1) Unaudited, subject to change.
(2 Gross Operating Revenues in fiscal year 2001 reflect a refund of $7.0 million.
(3 Includes net increase/decrease in fair value of investments beginning in fiscal year 1997-98.
(4 Unaudited.
(5 Revenue Bonds payable excluded from unrestricted current liabilities.

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 745 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%, 150%, or 200%) 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 10 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 2001, the City’s annual pension cost of $12,884,047 was equal to the City’s required and actual contributions. The required contribution was determined as part of the December 31, 2000, 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%	$0
9/30/00	12,733,270	100	0
9/30/99	11,861,763	100	0

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 in thousands, except for percentages):

For Year Ended December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded AAL (UAAL)	Annual Covered Payroll(1)	UAAL As a Percentage of Covered Payroll
1998	$225,979	$281,087	80%	$55,108	$ 85,830	64%
1999	252,879	312,412	81	59,534	92,137	65
2000	267,933	333,403	80	65,469	100,657	65

(1) Annual covered payroll is for fiscal years rather than calendar years.

Source: Comprehensive Annual Financial Report.

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, 2002, the total current assets less accounts payable and estimated current claims payable were $7,507,000. The estimated non-current claims payable (long term claims) at September 30, 2002 was $847,000. Claims occurring prior to November 1, 1986 are covered under the City's previous commercial insurance program. Property, Fidelity and Crime coverage's remain commercially insured.

EXECUTION

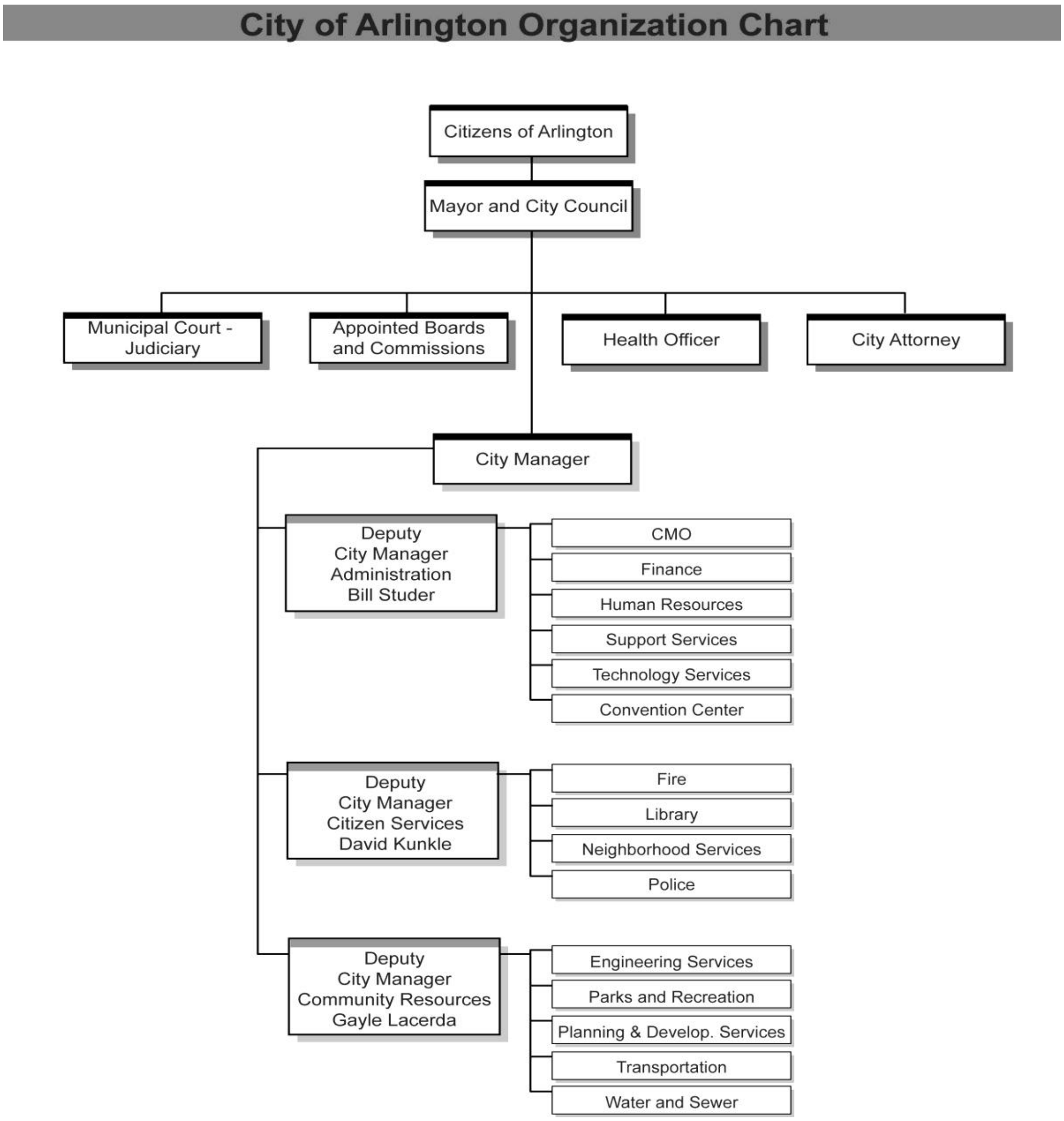
This Official Statement was approved and the execution and delivery of this Official Statement authorized by the City of Arlington, Texas on February 25, 2003.

\s\ Elzie Odom
Mayor, City of Arlington, Texas

ATTEST:

\s\ Karen Barlar
Interim City Secretary
City of Arlington, Texas

APPENDIX A


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

APPENDIX B

AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS
OF THE CITY OF ARLINGTON
FISCAL YEAR 2000-01

Copies of the complete City of Arlington Comprehensive Annual Financial Report Year Ended September 30, 2001 may be obtained from the City's Treasury Manager.

CITY OF ARLINGTON

GENERAL PURPOSE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2001

TABLE OF CONTENTS

ANDERSEN

Report of Independent Public Accountants

To the Honorable Mayor,
City Council and City Manager,
City of Arlington, Texas:

We have audited the accompanying general purpose financial statements of the City of Arlington, Texas (the "City"), as of and for the year ended September 30, 2001. These general purpose financial statements are the responsibility of the City's administration. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Arlington Housing Authority and the Arlington Convention and Visitors Bureau, Inc., discretely presented proprietary fund type component units of the City which statements represent 4% of total assets of the total discretely presented component unit column and 100% of operating revenues, of the related combined totals of the discretely presented component unit proprietary fund type. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City, as of September 30, 2001, and the results of its operations, changes in fund balances/retained earnings, the cash flows of its proprietary fund types, and changes in plan net assets of its trust funds for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2002, on our consideration of the City's internal control over financial reporting and 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.

Arthur Andersen LLP

Dallas, Texas,
January 9, 2002

CITY OF ARLINGTON, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS
AND DISCRETELY PRESENTED COMPONENT UNITS
AS OF SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Governmental Fund Types				Proprietary Fund Types	
ASSETS AND OTHER DEBITS	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
ASSETS:						
Cash and cash equivalents	$ 7,832	$6,801	$1,740	$71,945	$ 42,011	$ 8,176
Investments	-	-	3	-	-	8,064
Receivables (net of allowances for uncollectibles of $6,520 for FY 2001 and $6,237 for FY 2000)-						
Taxes	3,189	1,221	-	-	-	-
Grants	-	-	-	-	-	-
Lease	-	-	-	-	-	-
Trade accounts	7,552	-	-	-	6,053	71
Unbilled trade accounts	-	-	-	-	4,961	-
Special assessments	-	-	-	1,467	-	-
Sales taxes	8,058	-	-	-	-	-
Accrued interest	1,416	-	-	-	-	101
Settlement agreement	-	-	-	-	-	-
Other	1,348	2,431	-	73	694	-
Note receivable	-	-	-	-	-	-
Deposits	-	-	-	-	-	24
Due from other funds	2,095	-	-	-	-	-
Due from component units	53	-	-	-	-	-
Due from other governments	-	2,577	-	-	-	-
Inventory of supplies, at cost	336	-	-	-	9,429	281
Prepaid expenditures	24	6	-	-	-	-
Restricted assets-						
Bond contingency-						
Investments	-	-	-	-	11,763	-
Accrued interest receivable	-	-	-	-	128	-
Capital construction-						
Investments	-	-	-	-	24,692	-
Assessments receivable	-	-	-	-	5	-
Meter deposits-						
Investments	-	-	-	-	3,264	-
Property, plant and equipment-						
Land	-	-	-	-	9,446	-
Buildings and improvements	-	-	-	-	13,530	640
Water and sewer system	-	-	-	-	392,140	-
Machinery and equipment	-	-	-	-	12,724	21,792
Accumulated depreciation	-	-	-	-	(137,441)	(13,516)
Construction in progress	-	-	-	-	78,456	-
Amount available in debt service fund	-	-	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-
Amount to be provided for payment of accrued compensated absences	-	-	-	-	-	-
Total Assets and Other Debits	$31,903	$13,036	$1,743	$73,485	$471,855	$25,633

The accompanying notes to financial statements are an integral part of this balance sheet.

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
			Primary Government			Reporting Entity	
Trust and Agency	General Fixed Assets	General Long-Term Debt	2001	2000		2001	2000
$ 6,038	$ -	$ -	$ 144,543	$ 126,435	$ 9,402	$ 153,945	$ 136,985
72,486	-	-	80,553	101,140	3,381	83,934	104,346
-	-	-	4,410	4,381	-	4,410	4,381
-	-	-	-	-	150	150	503
-	-	-	-	-	45,847	45,847	49,347
-	-	-	13,676	13,569	-	13,676	13,569
-	-	-	4,961	7,141	-	4,961	7,141
-	-	-	1,467	1,506	-	1,467	1,506
-	-	-	8,058	7,619	4,029	12,087	11,428
-	-	-	1,517	1,769	32	1,549	1,828
-	-	-	-	-	11,399	11,399	11,323
-	-	-	4,546	4,364	113	4,659	4,372
-	-	-	-	-	1	1	1
-	-	-	24	8	-	24	8
-	-	-	2,095	2,163	-	2,095	2,163
-	-	-	53	46	-	53	46
-	-	-	2,577	2,747	-	2,577	2,747
-	-	-	10,046	10,844	17	10,063	10,864
-	-	-	30	45	17	47	57
-	-	-	11,763	10,838	-	11,763	10,838
-	-	-	128	128	-	128	128
-	-	-	24,692	22,241	-	24,692	22,241
-	-	-	5	9	-	5	9
-	-	-	3,264	3,227	-	3,264	3,227
-	39,271	-	48,717	45,176	-	48,717	45,176
-	183,735	-	197,905	172,509	-	197,905	172,509
-	-	-	392,140	366,020	-	392,140	366,020
-	47,548	-	82,064	74,128	1,453	83,517	75,526
-	-	-	(150,957)	(141,336)	(776)	(151,733)	(142,025)
-	56,841	-	135,297	131,088	-	135,297	131,088
-	-	1,740	1,740	1,675	11,249	12,989	16,057
-	-	300,850	300,850	292,505	16,688	317,538	334,757
-	-	17,280	17,280	15,682	-	17,280	15,682
$78,524	$327,395	$319,870	$1,343,444	$1,277,667	$103,002	$1,446,446	$1,413,848

(Continued)

CITY OF ARLINGTON, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS
AND DISCRETELY PRESENTED COMPONENT UNITS
AS OF SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Governmental Fund Types				Proprietary Fund Types	
LIABILITIES, EQUITY AND OTHER CREDITS	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
LIABILITIES:						
Accounts payable and accrued liabilities	$ 6,095	$1,135	$3	$1,521	$ 4,555	$ 325
Accounts payable and accrued liabilities- IRC 401 deferred compensation plan	-	-	-	-	-	-
Arbitrage rebate	1,221	-	-	-	-	-
Retainage payable	40	101	-	820	16	-
Landfill closure accrued liabilities	-	-	-	-	10,203	-
Payable from restricted assets-						
Accounts payable and accrued liabilities	-	-	-	-	563	-
Retainage payable	-	-	-	-	961	-
Accrued interest	-	-	-	-	1,761	-
Revenue bonds payable, current	-	-	-	-	3,794	-
Meter deposits	-	-	-	-	3,264	-
Due to other funds	-	2,070	-	-	-	25
Due to primary government	-	-	-	-	-	-
Due to other governments	-	1,939	-	-	-	-
Deferred revenue-						
Taxes	3,065	-	-	-	-	-
Other	807	3,755	-	3,726	-	7,000
Estimated claims payable-						
Current	-	-	-	-	-	3,025
Long-term	-	-	-	-	-	3,398
General obligation debt-						
Current	-	-	-	-	-	-
Accrued compensated absences-						
Current	1,016	-	-	-	98	4
Long-term	-	-	-	-	1,439	423
Capital lease obligation-						
Current	-	-	-	-	-	37
Long-term	-	-	-	-	-	39
Revenue bonds, net of discount, payable from unrestricted assets-						
Current	-	-	-	-	7,587	
Long-term	-	-	-	-	79,461	-
Notes payable	-	-	-	-	-	-
Loan payable	-	-	-	-	-	-
Bonds payable	-	-	-	-	-	-
Total Liabilities	12,244	9,000	3	6,067	113,702	14,276

The accompanying notes to financial statements are an integral part of this balance sheet.

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)		Discretely Presented	Totals (Memorandum Only)	
	General Fixed	General Long-Term	Primary Government		Component	Reporting Entity	
Trust and Agency	Assets	Debt	2001	2000	Units	2001	2000
$6,038	$-	$ -	$ 19,672	$ 18,097	$ 1,174	$ 20,846	$ 18,809
135	-	-	135	139	-	135	139
-	-	-	1,221	983	-	1,221	983
-	-	-	977	1,075	10	987	1,085
-	-	-	10,203	9,144	-	10,203	9,144
-	-	-	563	2,537	-	563	2,537
-	-	-	961	679	-	961	679
-	-	-	1,761	1,455	-	1,761	1,455
-	-	-	3,794	3,552	-	3,794	3,552
-	-	-	3,264	3,227	-	3,264	3,227
-	-	-	2,095	2,163	-	2,095	2,163
-	-	-	-	-	53	53	46
-	-	-	1,939	1,246	-	1,939	1,246
-	-	-	3,065	2,968	-	3,065	2,968
-	-	-	15,288	12,538	57,263	72,551	73,214
-	-	-	3,025	1,790	-	3,025	1,790
-	-	-	3,398	3,270	-	3,398	3,270
-	-	302,590	302,590	294,180	-	302,590	294,180
-	-	-	1,118	989	-	1,118	989
-	-	17,280	19,142	17,266	-	19,142	17,266
-	-	-	37	39	-	37	39
-	-	-	39	39	-	39	39
-	-	-	7,587	7,103	-	7,587	7,103
-	-	-	79,461	72,156	-	79,461	72,156
-	-	-	-	-	9,000	9,000	37,000
-	-	-	-	-	1,828	1,828	2,525
-	-	-	-	-	17,109	17,109	17,109
6,173	-	319,870	481,335	456,635	86,437	567,772	574,713

(Continued)

CITY OF ARLINGTON, TEXAS
COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS
AND DISCRETELY PRESENTED COMPONENT UNITS (continued)
AS OF SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Governmental Fund Types				Proprietary Fund Types	
LIABILITIES, EQUITY AND OTHER CREDITS	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
EQUITY AND OTHER CREDITS:						
Contributed capital-						
From other municipalities or governmental units	$ -	$ -	$ -	$ -	$ 9,097	$ 3
In aid of construction	-	-	-	-	123,081	-
From other funds and account groups	-	-	-	-	7,270	1,455
Investment in general fixed assets	-	-	-	-	-	-
Retained earnings-						
Reserved for revenue bond contingency	-	-	-	-	6,336	-
Unreserved	-	-	-	-	212,369	9,899
Fund balances-						
Reserved for encumbrances	1,379	655	-	30,564	-	-
Reserved for debt service	-	-	1,740	-	-	-
Reserved for inventory	336	-	-	-	-	-
Reserved for prepaids	24	-	-	-	-	-
Reserved for capital maintenance	-	253	-	-	-	-
Reserved for capital projects	-	-	-	36,854	-	-
Reserved for street maintenance	-	1,356	-	-	-	-
Reserved for capital outlay	-	624	-	-	-	-
Reserved for park acquisition	-	-	-	-	-	-
Reserved for utility rate case	500	-	-	-	-	-
Reserved for employee benefits	-	-	-	-	-	-
Reserved for working capital	11,389	-	-	-	-	-
Unreserved-						
Designated for telecommunications	357	-	-	-	-	-
Designated for subsequent years' expenditures	2,633	-	-	-	-	-
Undesignated	3,041	1,148	-	-	-	-
Total Equity and Other Credits	19,659	4,036	1,740	67,418	358,153	11,357
Total Liabilities, Equity, and Other Credits	$31,903	$13,036	$1,743	$73,485	$471,855	$25,633

The accompanying notes to financial statements are an integral part of this balance sheet.

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)		Discretely Presented Component Units	Totals (Memorandum Only)	
Trust and Agency	General Fixed Assets	General Long-Term Debt	Primary Government 2001	Primary Government 2000	Units	Reporting Entity 2001	Reporting Entity 2000
$ -	$ -	$ -	$ 9,100	$ 9,100	$ -	$ 9,100	$ 9,100
-	-	-	123,081	117,111	-	123,081	117,111
-	-	-	8,725	8,725	-	8,725	8,725
-	327,395	-	327,395	298,365	-	327,395	298,365
-	-	-	6,336	5,959	-	6,336	5,959
-	-	-	222,268	208,566	3,616	225,884	211,921
-	-	-	32,598	22,476	-	32,598	22,476
-	-	-	1,740	1,675	12,512	14,252	16,057
-	-	-	336	489	-	336	489
-	-	-	24	39	-	24	39
-	-	-	253	210	-	253	210
-	-	-	36,854	37,995	183	37,037	38,169
-	-	-	1,356	-	-	1,356	-
-	-	-	624	-	-	624	-
-	-	-	-	350	-	-	350
-	-	-	500	500	-	500	500
72,351	-	-	72,351	92,045	-	72,351	92,045
-	-	-	11,389	11,335	-	11,389	11,335
-	-	-	357	195	-	357	195
-	-	-	2,633	2,633	-	2,633	2,633
-	-	-	4,189	3,264	254	4,443	3,456
72,351	327,395	-	862,109	821,032	16,565	878,674	839,135
$78,524	$327,395	$319,870	$1,343,444	$1,277,667	$103,002	$1,446,446	$1,413,848

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
ALL GOVERNMENTAL FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
REVENUES:				
Taxes	$ 88,516	$ 4,676	$37,975	$ -
Licenses and permits	3,498	-	-	-
Utility franchise fees	31,201	-	-	-
Fines and forfeitures	5,919	-	-	-
Leases, rents, and concessions	866	-	-	-
Service charges	4,822	15,065	-	5,038
Interest revenue	1,196	-	1,217	2,934
Net increase in the fair value of investments	45	13	4	364
Contributions	-	-	-	1,956
Intergovernmental revenues	-	11,363	-	-
Other	-	1,563	172	943
Total Revenues	136,063	32,680	39,368	11,235
EXPENDITURES:				
Current-				
General government	26,370	-	-	-
Public safety	77,911	2,104	-	-
Public works	16,420	8,611	-	-
Public health	1,851	77	-	-
Parks and recreation	10,944	10,673	-	-
Public welfare	-	3,549	-	-
Operating expenditures	-	5,374	-	-
Capital outlay	-	3,267	-	36,693
Debt service-				
Principal retirement	-	-	26,730	-
Interest and fiscal charges	-	-	15,920	-
Total Expenditures	133,496	33,655	42,650	36,693
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,567	(975)	(3,282)	(25,458)
OTHER FINANCING SOURCES (USES):				
Proceeds from general obligation bonds	-	-	-	35,535
Proceeds from refunding bond issue	-	-	36,540	-
Amounts used to fund escrow account	-	-	(36,540)	-
Operating transfers in	4,621	5,308	3,347	4,008
Operating transfers out	(5,750)	(2,879)	-	(5,350)
Total Other Financing Sources (Uses)	(1,129)	2,429	3,347	34,193
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,438	1,454	65	8,735
FUND BALANCES, October 1	18,221	2,582	1,675	58,683
FUND BALANCES, September 30	$ 19,659	$ 4,036	$ 1,740	$67,418

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

Totals (Memorandum Only) Primary Government 2001	2000	Discretely Presented Component Units	Totals (Memorandum Only) Reporting Entity 2001	2000
$131,167	$124,026	$22,218	$153,385	$145,718
3,498	3,173	-	3,498	3,173
31,201	26,639	-	31,201	26,639
5,919	5,135	-	5,919	5,135
866	697	3,500	4,366	4,197
24,925	19,169	2,051	26,976	21,263
5,347	5,289	1,012	6,359	6,727
426	127	86	512	142
1,956	3,066	-	1,956	3,066
11,363	8,025	-	11,363	8,025
2,678	1,986	-	2,678	1,988
219,346	197,332	28,867	248,213	226,073
26,370	23,991	-	26,370	23,991
80,015	72,539	-	80,015	72,539
25,031	22,796	-	25,031	22,796
1,928	1,904	-	1,928	1,904
21,617	17,564	-	21,617	17,564
3,549	3,929	2	3,551	3,929
5,374	5,393	-	5,374	5,393
39,960	49,637	-	39,960	49,644
26,730	25,720	28,752	55,482	51,469
15,920	15,373	1,912	17,832	19,482
246,494	238,846	30,666	277,160	268,711
(27,148)	(41,514)	(1,799)	(28,947)	(42,638)
35,535	32,865	-	35,535	32,865
36,540	-	-	36,540	-
(36,540)	-	-	(36,540)	-
17,284	14,539	-	17,284	14,539
(13,979)	(11,234)	-	(13,979)	(11,234)
38,840	36,170	-	38,840	36,170
11,692	(5,344)	(1,799)	9,893	(6,468)
81,161	86,505	14,748	95,909	102,377
$ 92,853	$ 81,161	$12,949	$105,802	$ 95,909

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS -
GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS (continued)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	General Fund				
	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance-Favorable (Unfavorable)
REVENUES:					
Taxes	$ 88,516	$ -	$ 88,516	$ 90,020	$(1,504)
Licenses and permits	3,498	-	3,498	3,342	156
Utility franchise fees	31,201	-	31,201	27,773	3,428
Fines and forfeitures	5,919	-	5,919	6,217	(298)
Leases, rents, and concessions	866	-	866	679	187
Service charges	4,822	12,938	17,760	18,719	(959)
Interest revenue	1,218	167	1,385	1,193	192
Net increase in the fair value of investments	23	-	23	-	23
Total Revenues	136,063	13,105	149,168	147,943	1,225
EXPENDITURES:					
Current-					
General government	26,370	6,357	32,727	32,399	(328)
Public safety	77,911	783	78,694	79,228	534
Public works	16,420	5,251	21,671	22,574	903
Public health	1,851	(24)	1,827	1,907	80
Parks and recreation	10,944	421	11,365	11,548	183
Total Expenditures	133,496	12,788	146,284	147,656	1,372
EXCESS OF REVENUES OVER EXPENDITURES	2,567	317	2,884	287	2,597
OTHER FINANCING SOURCES (USES):					
Operating transfers in	4,621	(1,129)	3,492	3,492	-
Operating transfers out	(5,750)	532	(5,218)	(5,112)	(106)
Total Other Financing Sources (Uses)	(1,129)	(597)	(1,726)	(1,620)	(106)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1,438	$ (280)	$ 1,158	$ (1,333)	$2,491
FUND BALANCE, October 1	18,221				
FUND BALANCE, September 30	$ 19,659				

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

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON BUDGETARY BASIS -
GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS (continued)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Special Revenue Funds (see Note 5)				
	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance-Favorable (Unfavorable)
REVENUES:					
Taxes	$ 4,676	$ -	$ 4,676	$ 4,750	$ (74)
Service charges	14,681	-	14,681	14,927	(246)
Net increase in the fair value of investments	9	(9)	-	-	-
Other	59	(1)	58	-	58
Total Revenues	19,425	(10)	19,415	19,677	(262)
EXPENDITURES:					
Current-					
Parks and recreation	7,075	(57)	7,018	8,658	1,640
Operating expenditures	11,559	459	12,018	12,142	124
Capital outlay	610	(88)	522	808	286
Total Expenditures	19,244	314	19,558	21,608	2,050
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	181	(324)	(143)	(1,931)	1,788
OTHER FINANCING SOURCES (USES):					
Operating transfers in	3,867	-	3,867	3,867	-
Operating transfers out	(2,740)	-	(2,740)	(2,634)	(106)
Total other financing sources (uses)	1,127	-	1,127	1,233	(106)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	1,308	$(324)	$ 984	$ (698)	$1,682
FUND BALANCE, October 1	1,985				
FUND BALANCE, September 30	$ 3,293				

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

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL ON BUDGETARY BASIS - GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Debt Service Fund				
	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Budget	Variance- Favorable (Unfavorable)
REVENUES:					
Taxes	$37,975	$ -	$37,975	$37,973	$ 2
Interest revenue	1,221	-	1,221	925	296
Other	172	-	172	134	38
Total Revenues	39,368	-	39,368	39,032	336
EXPENDITURES:					
Debt service-					
Principal retirement	26,730	-	26,730	26,730	-
Interest and fiscal charges	15,920	-	15,920	15,937	17
Total Expenditures	42,650	-	42,650	42,667	17
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(3,282)	-	(3,282)	(3,635)	353
OTHER FINANCING SOURCES (USES):					
Proceeds from refunding bond issue	36,540	(36,540)	-	-	-
Amounts used to fund escrow account	(36,540)	36,540	-	-	-
Operating transfers in	3,347	-	3,347	3,347	-
Total Other Financing Sources (Uses)	3,347	-	3,347	3,347	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	65	$ -	$ 65	$ (288)	$353
FUND BALANCE, October 1	1,675				
FUND BALANCE, September 30	$ 1,740				

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

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CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY - ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Proprietary Fund Types	
	Enterprise	Internal Service
OPERATING REVENUES:		
Water sales	$39,901	$ -
Sewer service	29,366	-
Landfill user charges	8,017	-
Intergovernmental revenue	-	-
Service charges	-	25,039
Sundry	5,263	-
Total Operating Revenues	82,547	25,039
OPERATING EXPENSES:		
Purchase of water	12,394	-
Purchase of sewage treatment	14,601	-
Housing assistance payments	-	-
General and administrative	-	-
Tenant services	-	-
Salaries and wages	11,441	2,423
Employees' retirement	1,435	296
Supplies	2,483	3,035
Maintenance and repairs	2,335	1,122
Rent expense	-	-
Utilities	2,555	159
Franchise fees	3,936	-
Payment-in-lieu-of taxes	2,089	-
Claims and administration	-	15,351
Legal	-	125
Depreciation	8,567	2,230
Closure/postclosure expense	1,059	-
Miscellaneous services	6,269	540
Total Operating Expenses	69,164	25,281
OPERATING INCOME (LOSS)	13,383	(242)
NONOPERATING REVENUES (EXPENSES):		
Interest revenue	3,940	711
Net increase in the fair value of investments	410	205
Interest expense and fiscal charges	(1,294)	(7)
Gain on sale of assets	-	278
Other (Actuarial Study Adjustment)	-	-
Total Nonoperating Revenues (Expenses)	3,056	1,187
INCOME BEFORE OPERATING TRANSFERS	16,439	945
OPERATING TRANSFERS IN	-	1,106
OPERATING TRANSFERS OUT	(3,042)	(1,369)
Net Income	13,397	682

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

Totals (Memorandum Only) Primary Government September 30, 2001	Totals (Memorandum Only) Primary Government September 30, 2000	Discretely Presented Component Units	Totals (Memorandum Only) Reporting Entity September 30, 2001	Totals (Memorandum Only) Reporting Entity September 30, 2000
$ 39,901	$ 50,818	$ -	$ 39,901	$ 50,818
29,366	29,546	-	29,366	29,546
8,017	8,940	-	8,017	8,940
-	-	16,672	16,672	16,837
25,039	19,595	2,259	27,298	21,783
5,263	5,479	236	5,499	6,114
107,586	114,378	19,167	126,753	134,038
12,394	13,698	-	12,394	13,698
14,601	14,140	-	14,601	14,140
-	-	15,208	15,208	15,369
-	-	2,527	2,527	2,329
-	-	-	-	395
13,864	12,139	779	14,643	12,949
1,731	1,610	126	1,857	1,730
5,518	5,004	18	5,536	5,022
3,457	3,395	25	3,482	3,425
-	-	80	80	89
2,714	2,294	63	2,777	2,375
3,936	4,028	-	3,936	4,028
2,089	1,888	-	2,089	1,888
15,351	11,359	-	15,351	11,359
125	50	-	125	50
10,797	11,172	95	10,892	11,261
1,059	2,236	-	1,059	2,236
6,809	7,285	209	7,018	7,420
94,445	90,298	19,130	113,575	109,763
13,141	24,080	37	13,178	24,275
4,651	5,160	184	4,835	5,332
615	130	40	655	130
(1,301)	(1,850)	-	(1,301)	(1,850)
278	261	-	278	261
-	338	-	-	338
4,243	4,039	224	4,467	4,211
17,384	28,119	261	17,645	28,486
1,106	169	-	1,106	169
(4,411)	(3,474)	-	(4,411)	(3,474)
14,079	24,814	261	14,340	25,181

(Continued)

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY -
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS (continued)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Proprietary Fund Types	
	Enterprise	Internal Service
RETAINED EARNINGS/FUND BALANCE AT OCTOBER 1	$205,308	$ 9,217
RETAINED EARNINGS/FUND BALANCE AT SEPTEMBER 30	218,705	9,899
CONTRIBUTED CAPITAL AT OCTOBER 1	133,478	1,458
CONTRIBUTIONS IN AID OF CONSTRUCTION	5,970	-
CONTRIBUTED CAPITAL AT SEPTEMBER 30	139,448	1,458
TOTAL EQUITY/FUND BALANCE	$358,153	$11,357

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

Totals (Memorandum Only) Primary Government		Discretely Presented Component Units	Totals (Memorandum Only) Reporting Entity	
September 30, 2001	September 30, 2000		September 30, 2001	September 30, 2000
$214,525	$189,711	$3,355	$217,880	$192,699
228,604	214,525	3,616	232,220	217,880
134,936	129,426	-	134,936	129,426
5,970	5,510	-	5,970	5,510
140,906	134,936	-	140,906	134,936
$369,510	$349,461	$3,616	$373,126	$352,816

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

			Totals (Memorandum Only) Primary Government	
	Enterprise	Internal Service	September 30, 2001	September 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	$13,383	$ (242)	$13,141	$24,080
Adjustments to reconcile operating income (loss) to net cash provided by operating activities-				
Depreciation	8,567	2,230	10,797	11,172
Actuarial study adjustment	-	-	-	338
Interest earnings capitalized	(641)	-	(641)	(111)
Interest expense capitalized	3,434	-	3,434	3,093
Amortization of bond discount	(131)	-	(131)	(131)
Amortization of deferred amount on refunding	267	-	267	267
Provision for bad debts	(82)	-	(82)	(20)
(Increase) decrease in-				
Receivables	3,741	-	3,741	(1,790)
Deposits	-	(16)	(16)	(8)
Accrued interest	-	-	-	-
Prepaid expenses	-	-	-	-
Inventory of supplies	636	9	645	521
Other	-	-	-	-
Increase (decrease) in-				
Accounts payable and accrued liabilities	265	97	362	1,027
Retainage payable	292	-	292	(766)
Meter deposits	36	-	36	91
Estimated claims payable	-	1,363	1,363	(114)
Accrued compensated absences	123	164	287	99
Closure/postclosure liability	1,059	-	1,059	2,236
Deposits/escrows	-	-	-	-
Other	-	-	-	-
Net Cash Provided by Operating Activities	30,949	3,605	34,554	39,984
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers in	-	1,106	1,106	169
Operating transfers out	(3,042)	(1,369)	(4,411)	(3,474)
Net Cash Used for Noncapital Financing Activities	(3,042)	(263)	(3,305)	(3,305)

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

Discretely Presented Component Units	Totals (Memorandum Only) Reporting Entity September 30, 2001	September 30, 2000
$ 37	13,178	24,275
95	10,892	11,261
-	-	338
-	(641)	(111)
-	3,434	3,093
-	(131)	(131)
-	267	267
-	(82)	(20)
248	3,989	(1,565)
-	(16)	(8)
16	16	18
(5)	(5)	1,206
3	648	523
-	-	13
(36)	326	(1,182)
-	292	(766)
-	36	91
-	1,363	(114)
-	287	99
-	1,059	2,236
138	138	86
11	11	(9)
507	35,061	39,600
-	1,106	169
-	(4,411)	(3,474)
-	(3,305)	(3,305)

(Continued)

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND DISCRETELY PRESENTED COMPONENT UNIT (continued)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

			Totals (Memorandum Only) Primary Government	
	Enterprise	Internal Service	September 30, 2001	September 30, 2000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	$(35,326)	$(3,962)	$(39,288)	$(25,891)
Principal payments on capital lease	-	(59)	(59)	(79)
Interest payments on capital lease	-	(8)	(8)	(8)
Proceeds from sales of capital assets	-	278	278	261
Contribution in aid of construction	5,970	-	5,970	5,510
Receipt of special assessments	4	-	4	24
Proceeds from issuance of long-term debt	18,550	-	18,550	-
Repayment of long-term debt	(10,519)	-	(10,519)	(10,439)
Interest payment on long-term debt	(4,558)	-	(4,558)	(5,496)
Net Cash Used for Capital and Related Financing Activities	(25,879)	(3,751)	(29,630)	(36,118)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from interest earnings	4,856	711	5,567	5,355
Net increase in the fair value of investments	410	205	615	130
Purchase of investments	(293,988)	897	(293,091)	(246,769)
Maturities/sales of investments	290,301	-	290,301	246,721
Net Cash Provided by Investing Activities	1,579	1,813	3,392	5,437
INCREASE IN CASH AND CASH EQUIVALENTS	3,607	1,404	5,011	5,998
CASH AND CASH EQUIVALENTS AT OCTOBER 1	38,404	6,772	45,176	39,178
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30	$ 42,011	$ 8,176	$ 50,187	$ 45,176

RECONCILIATION OF CASH AND CASH EQUIVALENTS OF THE PROPRIETARY DISCRETELY PRESENTED COMPONENT UNITS TO THE TOTAL FOR ALL DISCRETELY PRESENTED COMPONENT UNITS:

Proprietary Discretely Presented Component Units	$ 893
Governmental Discretely Presented Component Units	8,509
CASH AND CASH EQUIVALENTS AT SEPTEMBER 30 FOR ALL DISCRETELY PRESENTED COMPONENT UNITS	$ 9,402

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Enterprise Funds

The Water and Sewer Fund received noncash contributions of assets from developers aggregating $5,970 and $5,510 during fiscal years 2001 and 2000, respectively. The amount of the net increase in fair value of investments that relates to the restricted assets in the Water and Sewer Fund was $207 and $60 during fiscal years 2001 and 2000 respectively.

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

Discretely Presented Component Units	Totals (Memorandum Only) Reporting Entity September 30, 2001	September 30, 2000
$ (63)	$(39,351)	$(25,960)
-	(59)	(79)
-	(8)	(8)
-	278	261
-	5,970	5,510
-	4	24
-	18,550	-
-	(10,519)	(10,439)
-	(4,558)	(5,496)
(163)	(29,793)	(36,087)
184	5,751	5,527
40	655	130
(31)	(293,122)	(246,769)
-	290,301	246,922
193	3,585	5,810
537	5,548	6,018
356	45,532	39,514
$893	$ 51,080	$ 45,532

CITY OF ARLINGTON, TEXAS
COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
ALL TRUST FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001
AMOUNTS IN THOUSANDS

	Totals	
	September 30, 2001	September 30, 2000
Additions:		
Employer contributions	$ 2,190	$ 2,134
Employee contributions	4,678	4,341
Net appreciation (depreciation) in fair value of investments	(20,251)	11,998
Total additions	(13,383)	18,473
Deductions:		
Benefits	6,286	5,760
Plan administration	25	32
Total deductions	6,311	5,792
Increase (decrease) in net assets	(19,694)	12,681
Net assets, October 1	92,045	79,364
Net assets, September 30	$72,351	$92,045

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

NOTE 1 - 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, account groups, and 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. 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 1250 East Copeland Road, Suite 650, Arlington, Texas, 76010.

Arlington Housing Finance Corporation

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

Arlington Industrial Development Corporation

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

See Note 11 for condensed financial information for the ASFDA and other discretely presented component units.

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.

A. Fund Accounting

The accounting policies of the City conform to accounting principles generally accepted in the United States as applicable to local governments. The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity/balance, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following funds and account groups are used by the City:

GOVERNMENTAL FUNDS

General Fund-

The General Fund is the principal fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the General Fund are paid the general operating expenditures and the capital improvement costs that are not paid through other funds.

Special Revenue Funds-

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include Community Development Block Grants, Home Investment Partnership, Federal Transit Administration, Street Maintenance, U. S. Army Corps of Engineers – Johnson Creek, Texas Department of Transportation, U.S. Department of Justice, Texas Parks and Wildlife, Texas Criminal Justice Division, Park Performance, Convention and Event Services, and other miscellaneous special revenue funds.

Debt Service Fund-

The Debt Service Fund is used to account for the accumulation of resources for and the payment of, principal and interest on the general long-term debt not being financed by proprietary funds. The fund's primary source of revenue is ad valorem taxes, which are levied by the City.

Capital Projects Funds-

The Capital Projects Funds are used to account for the acquisition or construction of capital facilities being financed from bond proceeds, contributed capital, assessments levied or transfers from other funds, other than those recorded in Proprietary Funds. The Capital Projects Funds include Municipal Office Building, Police, Fire, Library, Stormwater Utility, Park, Street, Traffic, Neighborhood Services, Airport, and Cooper House Project.

PROPRIETARY FUND TYPES

Enterprise Funds-

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Enterprise Funds include the Water and Sewer Fund and the Sanitary Landfill Fund.

Internal Service Funds-

The Internal Service Funds are used to account for the financing of materials and services provided by one department of the City to other departments of the City on a cost-reimbursement basis. The Internal Service Funds include General Services operations, Fleet Services, Technology Services and the City's insurance activities consisting of the Arlington Property Finance Authority, Workers' Compensation, and Group Health Funds.

FIDUCIARY FUND TYPES

Pension Trust and Agency Funds-

The Pension Trust Funds are used to account for assets held by the City's trustees in a fiduciary capacity for the City's retirement and disability programs. The Pension Trust Funds include the Part-Time Deferred Income Trust, Thrift Savings Plan and the Disability Income Plan.

The Agency Funds are used to account for assets held by the City in a fiduciary capacity as custodian or agent for individuals, other funds within the City, other governmental units and private organizations. The Agency Funds include the Payroll, Escrow, and Escheat Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group-

The General Fixed Assets Account Group represents a summary of the fixed assets of the City, other than fixed assets of the Proprietary Funds. Capital outlays in funds, other than Proprietary Funds, are recorded as expenditures of those funds at the time of purchase and, excluding infrastructure, are recorded, for control purposes, in the General Fixed Assets Account Group.

General Long-Term Debt Account Group-

The General Long-Term Debt Account Group represents a summary of the long-term obligations of the City, including general obligation bonds, certificates of obligation, and compensated absences. This account group does not include liabilities accounted for in the Proprietary Funds.

B. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All of the City's governmental fund types are accounted for using a current financial resources measurement focus. Under this measurement focus, generally only current assets and liabilities are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

All proprietary funds and the trust funds 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. Fund equity is segregated into contributed capital and retained earnings components for proprietary funds and fund balance for trust funds. Operating statements present increases and decreases in net total assets. The proprietary funds apply all applicable Governmental Accounting Standards Board (GASB) Pronouncements and only Financial Accounting Standards Board Pronouncements issued prior to November 30, 1989.

Accrual basis - The accrual basis of accounting is utilized by the Enterprise Funds, the Internal Service Funds, and Pension Trust Funds. Accordingly, revenues and expenses are recognized in the accounting period in which they are earned and incurred, respectively.

Modified accrual basis - The modified accrual basis is used for all other funds. Modifications in the accrual basis for these funds include the following:

1. Revenues are recognized when susceptible to accrual (i.e. when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary revenue sources treated as susceptible to accrual include property taxes collected within 60 days of year-end and sales taxes collected and held by the state at year-end on behalf of the City. Revenue sources from licenses, fines and forfeitures, service charges, and other miscellaneous revenues are generally recognized as the cash is received.

2. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period or when resources are received by the government before it has a legal claim to them, such as when grant or other monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Significant deferred revenues consist of general fund receivables which do not meet the available criteria and special revenue fund and capital project fund revenues received prior to the incurrence of qualifying expenditures or do not meet the available criteria.

3. Expenditures are recognized when the related fund liability is incurred, except for interest and principal on general long-term debt, which are recorded when due or otherwise payable.

4. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

C. Budget Control

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 and Convention and Event Services). 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 2001, the City Council approved additional budgetary expenditure amendments of approximately $745,000 for the General Fund.

D. Cash and Cash Equivalents, Investments and Deposits

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

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

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreements; however, the City has not invested in such instruments during fiscal 2001.

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

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

E. Inventories

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 fund types 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.

F. Property, Plant, and Equipment

Enterprise and Internal Service Funds-

Property, plant, and equipment are recorded at cost, including capitalized interest or, if contributed, the estimated fair market value at the date of contribution. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets, or on the units-of-production method based on filled capacity utilized for the City's landfill.

Estimated useful lives are as follows:

Building and improvements	40-50 Years
Water and sewer system	50 Years
Machinery and equipment	3-10 Years

Renewals and betterments of property and equipment are capitalized, whereas normal repairs and maintenance are charged to expense as incurred.

General Fixed Assets-

General fixed assets are recorded as expenditures in the General, Special Revenue, or Capital Projects Funds when acquired. Such assets are capitalized at actual cost, when available, or at estimated historical cost in the General Fixed Assets Account Group. Significant gifts or contributions of assets are recorded in the General Fixed Assets Account Group at estimated fair market value at the date of contribution. Public domain (infrastructure) general fixed assets, consisting of certain improvements other than buildings, including streets, curbs, sidewalks, gutters, and drainage systems, are not capitalized. No depreciation is provided on general fixed assets.

G. Capitalization of Interest

In conformity with Financial Accounting Standards No. 34, "Capitalization of Interest Cost," the City capitalizes interest costs, 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 2001, approximately $2,793,000 of interest costs, net of $641,000 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 2001 for the Water and Sewer Fund amounted to approximately $1,294,000 and $2,547,000, respectively.

H. 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 governmental and proprietary fund types, as applicable, and as a reduction of interest income on the invested debt proceeds. Such treatment is utilized because the liability is likely to be liquidated with available expendable financial resources that gave rise to the liability.

I. Property Tax Revenue

Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes become delinquent February 1 of the following year. Property taxes attach as a lien on property as of January 1 and become enforceable on February 1.

City property tax revenues are recognized in the year for which they are levied to the extent that they result in current receivables. An allowance is provided for delinquent personal property taxes not expected to be collected in the future.

For the fiscal year ended September 30, 2001, 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 imposed by Texas Constitutional law. Additional revenues up to approximately $232,039,000 could be raised per year before the limit is reached based on the current year's appraised net taxable value of approximately $12,435,152,000.

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.

The City accrues a liability for vacation and sick leave benefits in accordance with GASB Statement No. 16, "Accounting for Compensated Absences." The portion of such compensated absences, which is estimated to be liquidated within the next year using expendable available financial resources, has been recorded as a current liability in the General Fund. The remainder of the liability has been recorded as a long-term liability in the General Long-Term Debt Account Group. All amounts applicable to the Enterprise and Internal Service Funds have been recorded in those funds.

K. Comparative Data and Memorandum Totals

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the City's financial position and operations. Total columns on the combined statements are captioned as "Memorandum Only" to indicate that they are presented only to facilitate analysis. Data in these columns do not present financial position, results of operations or of cash flows in conformity with accounting principles generally accepted in the United States, nor is such data comparable to a consolidation. Except with certain component units, interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - INVESTMENTS AND DEPOSITS

Primary Government

In March 1997, GASB issued Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools.” This statement requires certain investments to be reported at fair value on the Balance Sheet, with the related gains and losses included on the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties. If a quoted market price is available for an investment that will be the fair value to be used in applying this Statement. The investments and deposits of the primary government, excluding TEXPOOL (see below), are stated at quoted market prices. At September 30, 2001, the fair value of investments was approximately $1,000,000 more than amortized cost, while at September 30, 2000, the fair value of investments was approximately $41,000 less than amortized cost. As a result, approximately $1,041,000 is recorded as the *Net increase in the fair value of investments*. The investment program of the City's primary government for the fiscal year ended September 30, 2001, resulted in interest revenue of approximately $9,998,000. The investments of the Trust Funds and the deferred compensation plans are held separately from those of other City funds.

The City voluntarily participates in the Texas Local Government Investment Pool, TEXPOOL. Oversight responsibility for TEXPOOL is provided by the State Comptroller of Public Accounts, who has the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board, composed of both participants and other independent persons, who review the investment policy and management fee structure. TEXPOOL operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. Amortized cost, rather than market value is used by TEXPOOL to report net assets used to compute share prices; therefore, the fair value of the investments in TEXPOOL is the same as the value of TEXPOOL shares.

Cash and investments of the primary government, as presented in the general purpose financial statements are stated at fair value with interest rates ranging from 3.300 percent to 6.750 percent. Investments and deposits at September 30, 2001, were as follows (amounts in thousands):

Cash and cash equivalents	$144,543
Investments	80,553
Restricted investments	39,719
Total Cash and Investments	$264,815

The following schedule provides information relative to collateral risk as defined by GASB Statement No. 3 "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements," of cash and investments held at September 30, 2001 (amounts in thousands):

	Category of Risk	Amortized Cost	Fair Value
Investments			
Treasury Notes	(1)	$ 95,741	$ 96,266
Federal Home Loan Bank, Notes and Discount Notes	(1)	33,788	34,149
Federal Farm Credit Bank, Notes and Discount Notes	(1)	1,500	1,524
Federal National Mortgage Assc., Notes and Discount Notes	(1)	16,659	16,679
Federal Home Loan Mortgage Assc., Notes and Discount Notes	(1)	17,264	17,336
State and Local Government Securities	(1)	3,731	3,731
		168,683	169,685
Deposits			
Demand Deposits (all bank accounts)	(1)	(1,564)	(1,564)
		(1,564)	(1,564)
Mutual Funds, Investment Pools and Other			
TEXPOOL	N/A	16,696	16,696
Fidelity	N/A	7,304	7,304
Deferred Compensation Investments	N/A	135	135
Trust Fund Investments	N/A	72,486	72,486
Cash on Hand	N/A	73	73
		96,694	96,694
Total Investments and Deposits		$263,813	$264,815

Component Units

Component unit investments and deposits are stated at fair value and bear interest at rates ranging from 3.350 percent to 7.60 percent. Investments and deposits at September 30, 2001, are as follows (amounts in thousands):

	Category of Risk	Amortized Cost	Fair Value
Investments			
Treasury STRIPS	(1)	$ 950	$ 997
Federal Home Loan Bank, Notes and Discount Notes	(1)	3,812	3,812
Deposits			
Certificates of Deposit	(1)	3,016	3,016
Demand Deposits	(1)	520	520
Mutual Funds, Investment Pools and Other			
TEXPOOL	N/A	196	196
U.S. Treasury Portfolio II	N/A	4,242	4,242
Total Investments and Deposits		$12,736	$12,783

The preceding risk description categories are defined as follows:

(1) Investments

Investments that are insured, registered, or for which the securities are held by the City/Component Unit or its agent in the City's/Component Unit's name.

Deposits

Deposits are entirely insured or collateralized with securities held by the City/Component Unit or by its agent in the City's/Component Unit's name. Cash in bank at September 30, 2001, is $1,707 for the primary government and $6 for the Component Units.

N/A Mutual Funds, Investment Pools and Other

Investments which are not categorized as to collateral risk because investments are not evidenced by securities that exist in physical or book entry form.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivables and payables at September 30, 2001, are as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
Internal Service Fund-		
Fleet	$ -	$ 25
Special Revenue Funds-		
Community Development Block Grant	-	16
Home Investment Partnership	-	57
Federal Transit Administration	-	199
Texas Department of Transportation	-	353
U.S. Department of Justice	-	315
Texas Parks and Wildlife	-	386
Texas Criminal Justice Division	-	37
Other Special Revenue	-	707
General Fund	2,095	-
	$2,095	$2,095

NOTE 4 - RESTRICTED ASSETS

The ordinances authorizing the water and sewer system revenue bonds require that the City establish a reserve fund in an amount not less than the average annual requirements for the payment of principal and interest on all its revenue bonds. In addition, the City is required to maintain an interest and sinking fund for the payment of interest and principal on the revenue bonds. The required amounts for these funds are recorded as "Restricted Assets - Bond Contingency" in the Water and Sewer Enterprise Fund.

The ordinances further require that the proceeds from the sale of revenue bonds be expended for certain capital improvements of the water and sewer system. The proceeds are maintained as "Restricted Assets - Bond Construction" until such time as needed to fund the water and sewer system construction program. The City also has restricted investments in an amount equal to outstanding meter deposits at year-end.

NOTE 5 - BUDGETARY COMPARISON

The City does not budget all Special Revenue Funds on a legally adopted annual budget basis; accordingly, the applicable columns of the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual exclude such funds for the Special Revenue Funds. A reconciliation of actual results for these funds for the year ended September 30, 2001, follows (amounts in thousands):

	Special Revenue Funds		
	Funds With Legally Adopted Annual Budgets	Funds Without Legally Adopted Annual Budgets	Total
Revenues	$19,425	$13,255	$32,680
Expenditures	19,244	14,411	33,655
Excess (Deficiency) of Revenues Over (Under) Expenditures	181	(1,156)	(975)
Other Financing Sources (Uses)	1,127	1,302	2,429
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	1,308	146	1,454
Fund Balance, October 1	1,985	597	2,582
Fund Balance, September 30	$ 3,293	$ 743	$ 4,036

Formal budgetary policies are not employed for the Capital Project Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

NOTE 6 - GENERAL FIXED ASSETS

General fixed assets balances and transactions for the year ended September 30, 2001, are as follows (amounts in thousands):

Primary Government

	Balance, October 1, 2000	Additions	Deductions	Balance, September 30, 2001
Land	$ 35,730	$ 3,541	$ -	$ 39,271
Buildings and improvements	158,396	25,339	-	183,735
Machinery and equipment	42,562	4,986	-	47,548
Construction-in-progress	61,677	22,465	(27,301)	56,841
	$298,365	$56,331	$(27,301)	$327,395

Component Units

Machinery and equipment	$355	$38	$-	$393
	$355	$38	$-	$393

In fiscal 1992, the ASFDA entered into an agreement to lease its ballpark facility for 30 years. This transaction has been accounted for as a capital lease. As of September 30, 2001, the lease receivable is $45,847,000, which has been offset by a corresponding amount of deferred revenue.

Proprietary Fund

	Balance September 30, 2001
Land	$ 9,446
Buildings and improvements	14,170
Water and sewer system	392,140
Machinery and equipment	34,516
Accumulated depreciation	(150,957)
Construction in progress	78,456
	$377,771

Proprietary Fund – Component Units

Machinery and equipment	$1,060
Accumulated depreciation	(776)
	$ 284

NOTE 7 – TRANSFERS FROM/TO OTHER FUNDS

Transfers from and Transfers to other funds in the Statement of Revenues, Expenditures, and Changes in Fund Balance represent transfers between fund groups. A schedule of transfers from and transfers to at September 30, 2001, is presented below (expressed in thousands):

	Transfers From	Transfers To
General Fund	$ 5,750	$ 4,621
Special Revenue Funds		
Park Performance	350	-
Texas Criminal Justice Division	-	177
Convention & Event Services	2,390	-
Federal Transit Administration – Handitran	-	601
Texas Parks & Wildlife	-	411
U.S. Department of Justice	-	37
Texas Department of Transportation	-	80
Street Maintenance	-	3,867
Other Special Revenue	139	135
Total Special Revenue Funds	2,879	5,308
Debt Service Fund	-	3,347
Capital Projects Funds		
Park	3,284	2,207
Street	2,013	1,801
Airport	44	-
Traffic	9	-
Total Capital Projects Funds	5,350	4,008
Enterprise Funds		
Water & Sewer	2,436	-
Sanitary Landfill	606	-
Total Enterprise Funds	3,042	-
Internal Service Funds		
Arlington Property Finance Authority – APFA	1,369	-
Fleet Services	-	356
Technology Services	-	750
Total Internal Service Funds	1,369	1,106
Total All Funds	$18,390	$18,390

NOTE 8 - LONG-TERM DEBT

General Long-Term Debt

The City issued $24,750,000 of Permanent Improvement Bonds, Series 2001-B. The City also issued $685,000 of Combination Tax and Revenue Certificates of Obligation, Series 2001-A, $9,600,000 of Combination Tax and Revenue Certificates of Obligation, Series 2001-B, and $500,000 of Combination Tax and Revenue Certificates, Series 2001-C during FY 2001 at a blended yield on the bonds of 4.64 percent, with all issuances scheduled to mature serially from 2002 to 2021. The bond and certificate proceeds were partly used to purchase the Frost Bank Building. The balance will be used to make various capital improvements.

General long-term debt balances and transactions for the year ended September 30, 2001, are as follows (amounts in thousands):

	Balance, October 1, 2000	Additions	Retirements and Other	Balance, September 30, 2001
General obligation debt [1]	$294,180	$70,620	$(62,210)	$302,590
Accrued compensated absences	15,682	3,260	(1,662)	17,280
Total	$309,862	$73,880	$(63,872)	$319,870

[1] The general obligation debt of $302,590 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 2021, and interest is payable semiannually at rates ranging from 2.75 percent to 9.50 percent.

The principal and interest requirements of the above general obligation debt at September 30, 2001, are as follows (amounts in thousands):

Fiscal Year	General Obligation Debt
2002	$ 43,507
2003	40,243
2004	39,445
2005	34,567
2006	31,774
Thereafter	233,849
	423,385
Less- Interest included in above amounts	(120,795)
Total	$302,590

General obligation debt authorized and unissued as of September 30, 2001, amounted to $69,455,000.

On June 15, 2001, the City issued $35,085,000 in Permanent Improvement Refunding Bonds, Series 2001-A to advance refund $35,480,000 of outstanding Series 1990 Permanent Improvement Bonds, Series 1991 Permanent Improvement Bonds, Series 1992 Permanent Improvement Bonds, Series 1993-A Permanent Improvement Bonds, Series 1994 Combination Tax and Revenue Certificates of Obligation, Series 1994 Permanent Improvement Bonds, Series 1995 Combination Tax and Revenue Certificates of Obligation, Series 1995 Permanent Improvement Bonds, Series 1996 Combination Tax and Revenue Certificates of Obligation, and Series 1996 Permanent Improvement Bonds. The net proceeds of $37,074,000 (including accrued interest of $193,000, premium of $1,796,000 and after payment of underwriter's fees and other issuance expenses of $341,000) were used to purchase U. S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the General Long-Term Debt Account Group.

The advance refunding will reduce the City's aggregate debt service payments by approximately $2,207,000 and will result in an economic gain or present value savings of approximately $1,573,000 over fifteen years, the remaining life of the refunded bonds. As of September 30, 2001, $33,780,000 of the refunded bonds were outstanding.

Debt of the Enterprise Funds

The City issued $18,550,000 of Water and Wastewater System Revenue Bonds, Series 2001 during 2001 at an effective interest rate of 4.76 percent and is scheduled to mature serially from 2002 to 2020. The bond proceeds will be used to improve and extend the City's Water and Wastewater System.

The revenue bonds of the Enterprise Funds are payable from operations of the Water and Sewer Fund. The bonds mature annually in varying amounts through fiscal year 2020, and interest is payable semiannually at rates ranging from 3.5 percent to 8.0 percent. Debt balances and transactions for the year ended September 30, 2001, are as follows (amounts in thousands):

	Balance, October 1, 2000	Additions	Retirements and Other	Balance, September 30, 2001
Waterworks and Sewer System-				
Revenue bonds	$83,060	$18,550	$(10,655)	$90,955
Deferred amount on refunding	(249)	-	136	(113)
Total	$82,811	$18,550	$(10,519)	$90,842

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 (Note 4). 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, 2001, for the enterprise fund debt for the next five years and, thereafter, are as follows (amounts in thousands):

	Waterworks and Sewer System Revenue Bonds
2002	$ 16,234
2003	15,190
2004	13,137
2005	11,304
2006	10,151
Thereafter	54,357
	120,373
Less-Deferred amount on refunding	(113)
Less-Interest included in above amounts	(29,418)
Total	$ 90,842

Long-Term Debt of the Discretely Presented Component Units

On May 17, 1995, the Authority issued $114,000,000 Taxable Sales Tax Floating Rate Notes, Series 1995 (the "Notes"). The proceeds of the Notes, along with funds on deposit in the Debt Service Fund were used to refund the $135,000,000 Taxable Sales Tax Floating Rate Notes, Series 1992 issued on June 23, 1992, the purpose of which was to pay the costs of the Project. The Notes bear an interest rate of 30 basis points (.30 percent) above the three-month London Interbank Offering Rate (LIBOR) for the period May 17, 1995, to May 20, 1997, and an interest rate of 40 basis points (.40 percent) above the three-month LIBOR for the period May 21, 1997, to maturity, May 15, 2002. Interest is paid quarterly, the third Wednesday in the months of February, May, August, and November. The interest rate for each succeeding quarter is reset two days prior to each current interest payment date. The Notes may be redeemed prior to maturity at the option of the Authority on any interest payment date. During FY 2001, a total of $20,000,000 of principal was redeemed prior to maturity.

The Notes are special, limited obligations of the Authority, secured by a lien on and a pledge of certain revenues of the Authority including the one-half cent sales and use tax levied within the City. The Notes were privately placed with Sumitomo Bank, Limited and Crédit Local de France. Principal payments are due on the third Wednesday in May as follows:

Year	Amount
2002	$9,000,000
	$9,000,000

Subsequent to September 30, 2001, the Authority made the final principal payment of $9,000,000 on November 21, 2001.

On September 8, 1999, the Authority purchased an Interest Rate Cap (the "Cap") from Bank of America, N.A. The Cap rate is 8.0 percent and is based on three month LIBOR. The applicable periods and related notional amounts are as follows:

Period Dates	Notional Amount
August 16, 2000 to November 15, 2000	$38,000,000
November 15, 2000 to February 21, 2001	33,000,000
February 21, 2001 to May 16, 2001	27,000,000
May 16, 2001 to August 15, 2001	19,000,000
August 15, 2001 to November 21, 2001	13,000,000

The Authority could be exposed to variable interest rates if its Cap counterparty defaults.

As part of the Incremental Funding, as defined in the Agreement, on February 2, 1993, the Authority authorized the issuance of $20,124,000 Junior Lien Revenue Bonds, First Series (the "Bonds"). The Bonds are noninterest-bearing limited special obligations of the Authority, secured by a subordinated junior lien on the one-dollar ticket surcharge, up to $2,000,000 annually, remaining after any amounts needed to pay interest and principal on the Notes and the Junior Lien Revenue Notes, as hereinafter defined. The Bonds are due on December 31, 2008, and are callable at any time at the option of the Authority. As of September 30, 2001, $17,109,350 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Project.

As an additional part of the Incremental Funding, on June 22, 1993, the Authority authorized the issuance of $12,000,000 Taxable Junior Lien Revenue Notes, Series 1993, (the "Junior Lien Revenue Notes"). The Junior Lien Revenue Notes are issued pursuant to a credit agreement between the Authority and NationsBank of Texas, N.A. (now Bank of America, N.A. through a corporate merger). The Junior Lien Revenue Notes are a limited special obligation of the Authority, secured by a junior lien on the one dollar ticket surcharge, up to $2,000,000 annually, remaining after any amounts needed to pay interest and principal on the Notes. Guaranties by various Rangers entities provide additional security should the annual one-dollar ticket surcharge amount be insufficient to pay interest and principal. For the year ended September 30, 2001, the one-dollar ticket surcharge was sufficient to pay interest and principal. As of September 30, 2001, $1,828,256 in Junior Lien Revenue Notes are outstanding.

On July 9, 1996, the Board of Directors authorized the execution of an agreement with NationsBank of Texas, N.A. (now Bank of America, N.A. through a corporate merger), amending the Junior Lien Revenue Notes extending the maturity to December 1, 2002. This amendment provides the Authority beginning May 21, 1997, at its option, to select either a variable interest rate of 150 basis points over the applicable LIBOR period, or a fixed rate of 150 basis points over the SWAP rate as defined in the agreement.

Currently, the Authority has one LIBOR based borrowing outstanding for the full amount due. This LIBOR-based borrowing bears an interest rate of 4.65 percent and matures on December 17, 2001. The authority could continue to be exposed to variable interest rate risk if it selects a LIBOR-based rate at that time.

NOTE 9 - PRIOR YEAR BOND REFUNDINGS

In prior years, the City 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, 2001, previously defeased debt still outstanding amounted to $77,225,000.

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds, which provide water and sewer services and solid waste disposal facilities. Segment information for the year ended September 30, 2001, are as follows (amounts in thousands):

	Water and Sewer	Sanitary Landfill	Total Enterprise Funds
Operating revenues	$ 74,481	$ 8,066	$ 82,547
Depreciation expense	(7,803)	(764)	(8,567)
Operating income	11,116	2,267	13,383
Operating transfers out	(2,436)	(606)	(3,042)
Net income	10,207	3,190	13,397
Capital contributions	5,970	-	5,970
Property, plant, and equipment			
additions, net	34,821	505	35,327
Net working capital	20,869	37,707	58,576
Total assets	427,280	44,575	471,855
Bonds and other long-term liabilities-			
Payable from unrestricted assets	88,400	87	88,487
Fund Equity-			
Contributed capital	119,128	20,320	139,448
Retained earnings	205,247	13,458	218,705

NOTE 11 - CONDENSED COMPONENT UNIT INFORMATION

The City includes five component units in its Reporting Entity Memorandum Totals (see Note 1). The ASFDA, AHFC, and AIDC are accounted for as governmental funds. The ACVB and AHA are accounted for as proprietary funds. Condensed balance sheet information for the year ended September 30, 2001, for all discretely presented component units is as follows (amounts in thousands):

	ASFDA	Arlington Housing Authority	Arlington Convention and Visitors Bureau, Inc.	Arlington Housing Finance Corporation	Arlington Industrial Development Corporation	Total
Current assets	$13,290	$3,296	$302	$251	$3	$ 17,142
Lease receivable	45,847	-	-	-	-	45,847
Settlement agreement	11,399	-	-	-	-	11,399
Property, plant, and equipment, net	-	535	142	-	-	677
Amount available in debt service	11,249	-	-	-	-	11,249
Amount to be provided for the retirement of long-term debt	16,688	-	-	-	-	16,688
Total Assets and Other Debits	$98,473	$3,831	$444	$251	$3	$103,002
Current liabilities	$ 595	$ 132	$ 91	$ -	$ -	$ 818
Due to primary government	-	53	-	-	-	53
Other noncurrent liabilities	57,246	366	17	-	-	57,629
Notes payable	9,000	-	-	-	-	9,000
Loan payable	1,828	-	-	-	-	1,828
Bonds payable	17,109	-	-	-	-	17,109
Total Liabilities	$85,778	$ 551	$108	$ -	$ -	$ 86,437

Condensed statement of revenues and expenditures for the three discretely presented governmental funds is as follows (amounts in thousands):

	ASFDA	Arlington Housing Finance Corporation	Arlington Industrial Development Corporation	Total
Revenues	$28,803	$64	$-	$28,867
Public welfare expenditures	-	2	-	2
Debt service expenditures	30,664	-	-	30,664
Total expenditures	30,664	2	-	30,666
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	$ (1,861)	$62	$-	$ (1,799)

Condensed statement of revenue and expenses of the two discretely presented proprietary funds is as follows (amounts in thousands):

	Arlington Housing Authority	Arlington Convention And Visitors Bureau, Inc.	Total
Operating Revenues	$16,674	$2,493	$19,167
Operating Expenses (less depreciation)	16,709	2,326	19,035
Depreciation	44	51	95
Operating Income (Loss)	(79)	116	37
Interest Income	173	11	184
Net increase in fair value of investments	40	-	40
Net Income	134	127	261

NOTE 12 - 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 $10,203,000 reported as a landfill closure accrued liability at September 30, 2001, represents the cumulative amount reported to date based on the use of approximately 78 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 $7,838,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2001. 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.

NOTE 13 - RISK MANAGEMENT

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

Arlington Property Finance Authority (APFA)

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

Based upon the historical claims experience of the City, an analysis of the limits on certain liabilities of the City under Texas law, the payment limitations from the APFA Fund set forth in the Program Ordinance and other actuarial considerations, independent consulting actuaries (the "Actuaries") estimated that a deposit of $10,000,000 in the APFA Fund would provide primary, or first dollar, self-insurance coverage adequate to pay all claims against the City for damages related to injuries that arise out of the above-named risks and to pay the cost and expenses of the APFA Fund for a period of ten years. The APFA issued $9,000,000 of notes payable and the City transferred $1,000,000 from the General Fund in order to fund the Program. In May 1992, $5,000,000 principal amount of the Risk Management Notes were paid, leaving $4,000,000 principal amount outstanding. In August 2001, the City Council adopted an ordinance to extend the program for another four years, when it will expire on September 30, 2005. On August 28, 1996, the City of Arlington Property Finance Authority passed a resolution calling the Notes for early redemption on November 1, 1996. The Notes were redeemed at par on November 1, 1996. On January 12, 1999, the City issued $7,000,000 of Certificates of Obligation, Series 1999 to capitalize the Fund for an additional five years based on a recent actuarial study of the program. The $7,000,000 will be repaid from ad valorem taxes and is reflected as a liability in the General Long-Term Debt account group. The proceeds from the issuance are treated as cash and investments with a corresponding deferred revenue balance in the APFA Fund. The deferred revenue will be recognized as revenue in future years as the related claims are incurred. 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 5.5 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $1,694,000 at September 30, 2001.

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 5.25 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $3,402,000 at September 30, 2001.

Group Health

The City's group health insurance plan provides City employees with health insurance through the Group Health Fund (the "GHF"). The premiums for such insurance coverage are paid using funds obtained from payroll deductions and charges to City departments. All claims are paid by the insurance company. The City's liability related to employee claims is limited to the annual aggregate premium due to the insurance company. This is a fully insured contract effective January 1, 1997.

Changes in the balances of claims liabilities during fiscal 2001 and 2000 were as follows (amounts in thousands):

Fiscal 2001	October 1	Claims and Changes In Estimates	Claim Payments	September 30
APFA	$1,651	$ 656	$ (613)	$1,694
Workers' Compensation	3,409	2,241	(2,248)	3,402
	$5,060	$2,897	$(2,861)	$5,096
Fiscal 2000				
APFA	$1,989	$ 140	$ (478)	$1,651
Workers' Compensation	3,185	2,654	(2,430)	3,409
	$5,174	$2,794	$(2,908)	$5,060

NOTE 14 - 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 745 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%, 150%, or 200%) 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 10 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 2001, the City's annual pension cost of $12,884,047 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2000, 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%	$0
9/30/00	12,733,270	100	0
9/30/99	11,861,763	100	0

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 in thousands, except for percentages):

For Year Ended December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Unfunded AAL (UAAL)	Annual Covered Payroll[1]	UAAL As a Percentage of Covered Payroll
1998	$225,979	$281,087	80%	$55,108	$ 85,830	64%
1999	252,879	312,412	81	59,534	92,137	65
2000	267,933	333,403	80	65,469	100,657	65

(1) Annual covered payroll is for fiscal years rather than calendar years.

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, 2001, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $71,170,000.

The City's total payroll during fiscal 2001 was $111,982,000. The current year contribution was calculated based on a covered payroll of $83,248,000, resulting in a required and actual employer contribution of $1,893,000 and actual employee contributions of $4,589,000. The employer contribution represents 2.3 percent of the covered payroll. The employee contribution represents approximately 5.5 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2001. There were no related-party transactions.

Part-Time Deferred Income Trust

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

The contribution rate for employees is 3 percent, and the City's actuarially determined matching percent is currently 2.3 percent. The City's required contribution rate was determined as part of the July 1, 2000, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities. As a result of this study, it was determined that the City's portion was overfunded and therefore no contribution was made by the City for fiscal year 2001. For 2001, 2000, 1999, 1998, 1997, and 1996 the City contributed 100 percent of the annual pension cost totaling approximately $0, $75,000, $69,000, $59,000, $59,000, and $65,000 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.

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Percentage Funded	Excess Funded AAL (EAAL)	Annual Covered Payroll	EAAL as a Percentage of Covered Payroll
7/1/95	$247,153	$222,634	111.0%	$ 24,518	$2,647,745	0.9%
7/1/97	517,699	403,556	128.3	114,143	3,108,120	3.7
7/1/98	607,309	465,152	130.6	142,157	2,842,023	5.0
7/1/99	721,234	501,581	143.8	219,653	2,500,507	8.8
7/1/00	808,509	591,521	136.7	216,988	2,500,507	8.7

* An actuarial valuation was not performed as of 7/1/96.

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 Public Employees Benefit Services Corporation (PEBSCO). 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, 2000, the date of the latest actuarial valuation, the DIP had benefit liabilities to disabled participants of $2,984,000. The market value of DIP assets at July 1, 2000, was $335,000. The resulting unfunded DIP liability of $2,649,000 will be funded by employer contributions over 30 years.

City contributions for the above plans for the year ended September 30, 2001, are as follows (amounts in thousands):

TMRS	$12,884
THRIFT	1,893
PTDIT	0
DIP	297
	$15,074

NOTE 15 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 14, the City provides postretirement health care benefits to all employees who retire from the City with at least 10 years of City of Arlington service. Currently, 393 retirees meet those eligibility requirements. The City reimburses 80 percent of the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees and their dependents that are out of the designated service area. For retirees 65 or older, the City coordinates with Medicare as the primary payor. The City also offers two HMO's or a POS for retirees in the designated service area. Expenditures for postretirement health care benefits are recognized as retirees report claims. During the year, expenditures of $1,311,000 were recognized for postretirement health care.

NOTE 16 - LEASE AGREEMENTS

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel, commercial and office complex and business park. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, and throughout the remainder of the lease term, annual rental payments shall be the greater of 0.5 percent of gross revenues or an aggregate of $750,000. Total rental payments received in 2001 were approximately $226,000.

NOTE 17 - 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.

Capital Project Fund - Fund Balance Reserved for Encumbrances

The City reserves fund balance for encumbrances in the Capital Projects Fund as projects are approved by the City Council and the City enters into a contractual obligation. Such obligations outstanding at year-end are with various contractors and represent the estimated amount of expenditures that will ultimately be necessary to complete construction-in-progress at year-end.

Litigation

The City is involved in a class action lawsuit in which the plaintiff alleges that the City’s street maintenance fee as approved by the City Council in October 2000 is an illegal tax. The trial court has concluded that the fee is invalid; however, a final ruling and remedy has not yet been issued by the court. The range of exposure to the City in the event of a refund ruling is $3,500,000 to $4,500,000. The probability of an unfavorable outcome cannot be determined at this time.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see Note 13) or insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position, as a whole.

Recently Issued GASB Statements

GASB has issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Introduction* to establish specific standards for the basic financial statements, management's discussion and analysis (MD&A), and certain required supplementary information other than MD&A. This statement will become effective for the City in fiscal year 2002.

GASB has issued Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments: Omnibus - an Amendment of GASB Statements No. 21 and No. 34*. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34. Generally, escheat property that was reported in an expendable trust fund in the previous model should be reported in a private purpose trust fund under Statement 34. Additionally, the admendments either (1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application or (2) modify other provisions that the GASB Board believes may have unintended consequences in some circumstances. This statement will become effective for the City in fiscal year 2002.

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

Management has not determined the impact of these statements on the financial statements.

NOTE 18 – 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
2001 to 2003	$ 500,000
2004 to 2009	800,000
2010	900,000
2011 to 2024	1,000,000

The payment in 2024 is due on or before March 1. By entering into this agreement, the ASFDA and the City agreed to release and discharge the Rangers from the Claim. As of September 30, 2001, $11,399,116 is recognized as the present value of future payments to be received under the Dispute Settlement Agreement, as settlement agreement receivable, with a corresponding deferred revenue balance.

NOTE 19 – WATER UTILITIES REBATE

The City refunded approximately $7,000,000 to water customers in the form of a credit received on their water bills in December 2000. This refund was based on the excess revenues collected as a result of significant water sales realized from consecutive dry summers in fiscal years 1999 and 2000.

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$11,720,000
CITY OF ARLINGTON, TEXAS
WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS
SERIES 2003

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

> CITY OF ARLINGTON, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE REFUNDING BONDS, SERIES 2003, dated February 15, 2003.
>
> The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as bond counsel for the 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 Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer'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 Issuer; a certain escrow agreement (the "Escrow Agreement") between the Issuer and JPMorgan Chase Bank, as escrow agent (the "Escrow Agent"); a report (the "Report") of The Arbitrage Group, Inc., certified public accountants (the "Verification Agent"), verifying the sufficiency of the deposits made with the Escrow Agent for the defeasance of the "Refunded Bonds" (as defined in the Ordinance) and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; customary certificates of officers, agents and representatives of the Issuer, 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 obligations of the Issuer;

(B) The Bonds are payable from and secured by a lien on and pledge of the Net Revenues of the Issuer's water and wastewater system, as defined and described in the Ordinance; and

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement and, therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement.

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 2008, 2010, 2011 and 2015 (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 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 Issuer and the underwriters of the Bonds with respect to matters solely within the knowledge of the Issuer and the underwriters, 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. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations. If such representations or Report are determined to be inaccurate or incomplete or the Issuer 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.

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 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 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 Issuer as the taxpayer. We observe that the Issuer 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.

APPENDIX D

SCHEDULE OF BONDS TO BE REFUNDED(1)

Issue	Maturities Being Refunded	Principal Amount to be Refunded	Redemption Date
Waterworks and Sewer System Revenue Bonds, Series 1993	2004-2012	$3,780,000	06/01/2003
Waterworks and Sewer System Revenue Bonds, Series 1994	2005-2013	3,780,000	06/01/2004
Waterworks and Sewer System Revenue Bonds, Series 1996	2010-2015	3,450,000	06/01/2006

(1) Preliminary, subject to change. All bonds to be redeemed at par.