OFFICIAL STATEMENT

NEW ISSUE/Book-Entry Only

RATINGS: Fitch Ratings "AAA"
Moody's "Aaa"
Standard & Poor's "AAA"
(MBIA 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.

$17,000,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Bonds
Series 2005

Dated: March 1, 2005 **Due: June 1, as shown below**

The $17,000,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2005 (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 December 1, 2005.

Payment of the principal of and interest on the Bonds is unconditionally guaranteed by a municipal bond insurance policy issued by MBIA Insurance Corporation simultaneously with the delivery of the Bonds.

MBIA

Maturity Schedule

Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[1]	Year	Amount	Interest Rate	Initial Reoffering Yield	Cusip Number[1]
2006	$895,000	3.000%	2.50%	04184K DS1	2016	$895,000	4.000%	4.03%	04184K EC5
2007	895,000	3.000%	2.72%	04184K DT9	2017	895,000	4.000%	4.10%	04184K ED3
2008	895,000	3.000%	2.90%	04184K DU6	2018	895,000	4.000%	4.17%	04184K EE1
2009	895,000	3.000%	3.05%	04184K DV4	2019	895,000	4.125%	4.25%	04184K EF8
2010	895,000	3.000%	3.20%	04184K DW2	2020	895,000	4.200%	4.30%	04184K EG6
2011	895,000	4.000%	3.40%	04184K DX0	2021	895,000	4.250%	4.36%	04184K EH4
2012	895,000	5.000%	3.55%	04184K DY8	2022	895,000	4.250%	4.44%	04184K EJ0
2013	895,000	5.000%	3.70%	04184K DZ5	2023	895,000	4.375%	4.50%	04184K EK7
2014	895,000	5.000%	3.80%	04184K EA9	2024	890,000	4.500%	4.56%	04184K EL5
2015	895,000	4.000%	3.95%	04184K EB7					

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.

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

The date of this Official statement is March 8, 2005.

CITY OF ARLINGTON

ELECTED OFFICIALS

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

(1) Served as Councilmember from May 1999 to May 2003.
(2) Served as Councilmember from May 2000 to May 2003 and elected May 2004.

APPOINTED OFFICIALS

Name	Position	Years of employment with City
Fred Greene	Interim City Manager	11[1]
Ron Olson	Deputy City Manager - Citizen Services	[2]
Trey Yelverton	Interim Deputy City Manager - Community Resources	11
Fiona Allen	Interim Deputy City Manager - Administration	14
Donna Swarb	Chief Financial Officer	6
Rick McCleery	Acting Director of Water Utilities	30
Jay Doegey	City Attorney	18
Barbara Heptig	City Secretary	8

(1) Served as Interim Deputy City Manager from June to November 2004 and had ten years with City at Director level from 1985 to 1995.
(2) Employed with City since November, 2004.

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.

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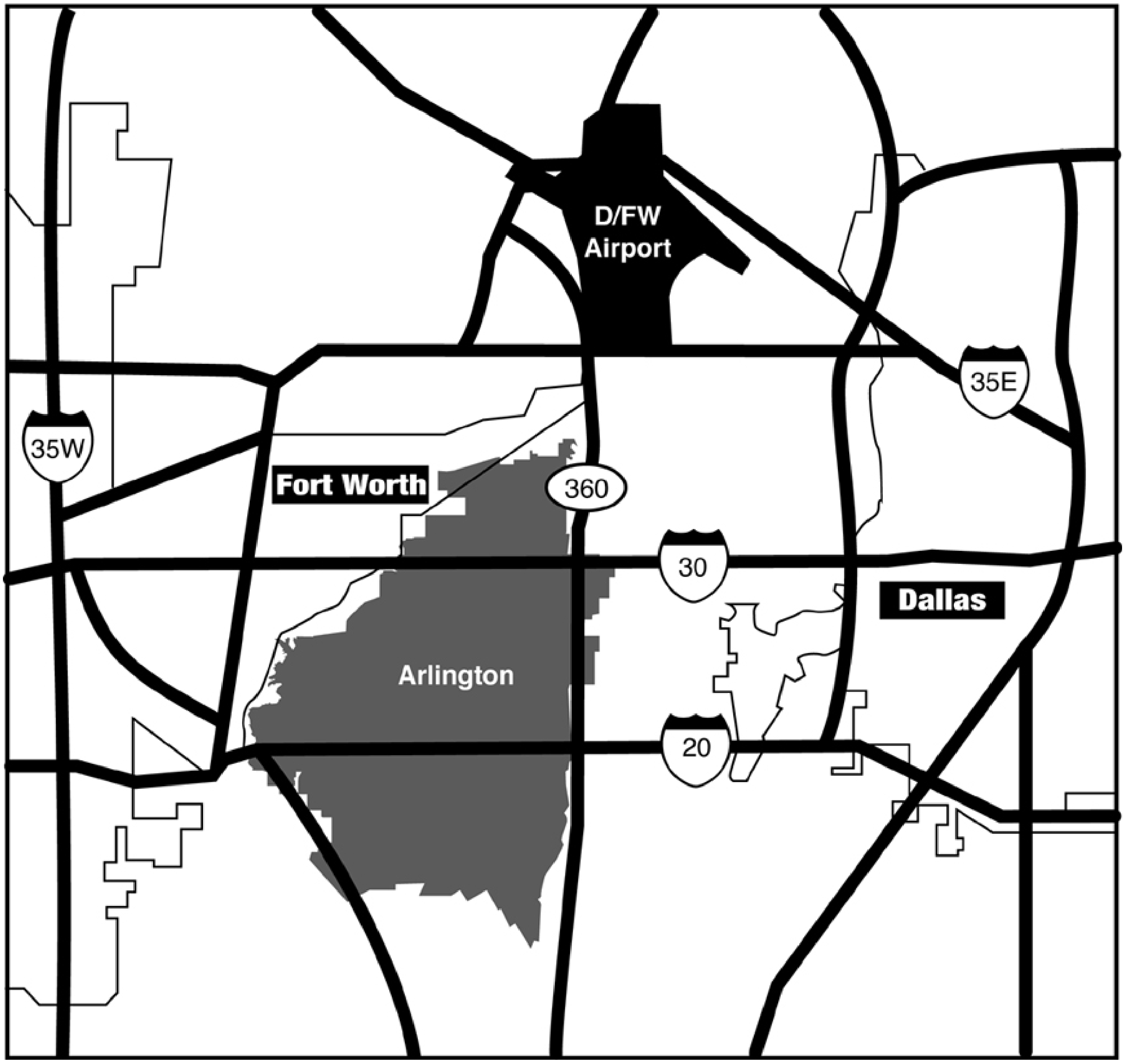
Dallas/Fort Worth/Arlington Metropolitan Area



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 355,634 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 139,500 water utility units.

The City owns and has water rights in Lake Arlington and contracts for additional water supply with the Tarrant Regional Water District. The District provides the City water from the Cedar Creek, Richland Chambers and Benbrook Reservoirs.

Approximately 1,181 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

$17,000,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2005 (the "Bonds"), dated March 1, 2005, mature on the dates and bear interest at the rates set forth on the cover of this Official Statement. Interest will be paid on December 1, 2005, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption.

Use of Proceeds

The proceeds of the Bonds are being used to improve and extend the System 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, 2016, are subject to redemption prior to maturity at par plus accrued interest, at the option of the City, on June 1, 2015, 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 no longer involved in the class action lawsuit Scalf v. City of Arlington challenging the validity of the street maintenance fee. In February 2004, the Texas Supreme Court denied review of the Fort Worth Court of Appeals decision. The trial court had found the street maintenance fee was an illegal tax. The Fort Worth Court of Appeals dismissed the case against the City, because the citizen did not have standing to challenge the fee. The City subsequently repealed the street maintenance fee after voters approved a street maintenance sales tax.

The City is currently involved in an employment lawsuit, Lubke v. City of Arlington, in which the plaintiff alleges that his termination violated the Family Medical Leave Act. He was terminated from his employment as a Battalion Chief with the City of Arlington Fire Department when he did not show up for work during the "Y2K" weekend in December 1999. The City contends that the plaintiff had inadequate substantiation for his absence. Such substantiation was required under the policies of the Fire Department. The City is vigorously contesting this case, which was tried by jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City. The case has been appealed. The range of exposure to the City in the event the jury verdict is affirmed on appeal is $1.1 to 1.5 million dollars. The probability of an unfavorable outcome cannot be determined at this time. Accordingly, no accrual has been made.

Stephen Glahn filed suit against George W. Bush, the Texas Rangers, the Arlington Sports Authority, former Mayor Richard Greene, and Mayor Robert Cluck to contest the ad valorem tax exempt status afforded the Rangers and Cowboys sports facilities. He sought an injunction and the return of tax dollars to the school district. On December 9, 2004 the court granted the plea to the jurisdiction dismissing all claims as to all defendants because of Plaintiff's lack of standing. Plaintiff is still within the time to file an appeal but an outcome adverse to the City is remote. Accordingly, no accrual has been made.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see "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 April 5, 2005.

Paying Agent /Registrar

Payments of principal and interest will be payable by Wells Fargo Bank, N.A. (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" respectfully 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 MBIA Insurance Corporation. 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 any or all 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 a syndicate managed by Morgan Stanley & Co. Inc. (the "Purchaser"), to purchase the Bonds bearing the interest rates shown under "Maturity Schedule," at a price of seventeen million fifty-four thousand four hundred ninety-four dollars and sixty-five cents ($17,054,494.65) and accrued interest to the date of delivery, which resulted in a true interest cost of 4.136339 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 (March 1, 2005) 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

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix D for a specimen of MBIA's policy.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Company to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Bonds the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefore.]

MBIA

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading Bond Insurance. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

(1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2003; and
(2) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of the Company's most recent Quarterly Report on form 10-Q, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of $9.9 billion (audited), total liabilities of $6.2 billion (audited), and total capital and surplus of $3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004 MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $6.7 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION

In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

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 2005. 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 (the "MAC") 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. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at www.DisclosureUSA.com ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information related to the Bonds.

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) Bond 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 March 1, 2005, 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 December 1, 2005, and on each June 1 and December 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.

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. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

In rendering the foregoing opinion, Bond Counsel will assume, in reliance upon certain representations of the Purchaser, that (a) the Purchaser 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 certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

Book-Entry-Only System - Miscellaneous

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

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, 2016, prior to their scheduled maturities, in whole or in part, on June 1, 2015, 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 in such maturity to be called for redemption, and each DTC Participant is to then select by lot the ownership interest in each maturity to be redeemed. See "Book-Entry-Only System - General" herein.

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

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 Bonds, Series 2005.

(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 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 and Wastewater System Revenue Bonds, Series 1999, authorized by an Ordinance of the City Council passed on February 9, 1999; and Water and Wastewater System Revenue Bonds, Series 2001, authorized by an Ordinance of the City Council passed on March 13, 2001; and Water and Wastewater System Revenue Bonds, Series 2002, authorized by an Ordinance of the City Council passed on March 12, 2002; and Water and Wastewater System Revenue Refunding Bonds, Series 2003, authorized by an Ordinance of the City Council passed on February 25, 2003; and Water and Wastewater System Revenue Bonds, Series 2004, authorized by an Ordinance of the City Council passed on February 24, 2004.

(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 of Reserve Fund Obligations 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 by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/24th of the Reserve Fund Requirement on or before the 10th day of each month following such deficiency, termination, or expiration. 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; provided, however, that to the extent such monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which bond proceeds may be used. For the purpose of determining compliance with the aforesaid requirements, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year, 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.

"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 invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or 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, 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; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investment with any primary dealer of such agreements) that the money required to expended from any Fund will be available at the proper time or times. Such investments shall be valued each year in terms of current market value as of the last day of the City's fiscal year. For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at an official depository bank, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates or participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default.

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 the second and fourth Tuesday of each month. Council meetings are broadcast 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

Interim City Manager - Mr. Fred Greene - who is a municipal government consultant, was interim deputy city manager in Arlington from June to November of 2004. He previously worked for the City of Arlington from 1985 to 1995, first as the Information Services Director and then as the Management Services Director. Prior to that, Mr. Greene was the City Manager in Garland.

Deputy City Manager – Mr. Ron Olson – with the City since November 2004, he received his B.S. and his M.P.A. from Brigham Young University. He is a member of the International City/County Management Association. Prior to joining the City, he served as the City Manager of Middletown, OH, Belding, MI and West Jordan, UT.

Interim Deputy City Manager – Mr. Trey Yelverton – with the City since 1993, most recently as the Director of the Neighborhood Services Department since 2000. He received an undergraduate degree in Political Science-Public Administration from the University of Texas at Arlington, and a M.P.A. from University of North Texas.

Interim Deputy City Manager - Ms. Fiona Allen – with the City since December 1990, most recently as the Director of Water Utilities Department since 2003. She received her B.S. in Civil Engineering from Texas A&M University and is a Professional Engineer and Registered Sanitarian.

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.

Acting Director of Water Utilities – Mr. Rick McCleery – with the City since February 1974, he received his B.A. from the University of Texas at Arlington. Prior to his current appointment, he served as Assistant Director of Utilities for fifteen years.

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 five branch libraries, 84 city parks, and four municipal golf courses.

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

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

FUNCTIONAL GROUPS

Community Resources Group

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

The Department of Public Works plans, designs, operates, acquires, constructs and maintains public facilities to ensure the safe and efficient movement of people, goods and storm water. The department is structured in divisions focusing on transportation planning, engineering operations, traffic, signal engineering, geographic information systems, streets and storm water drainage.

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

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

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,529 acres of parks, including four municipal golf courses and five recreational centers, two senior citizen centers, and for the management of the Bob Duncan Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical and cultural needs of the citizens of Arlington.

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

Administration Group

The Deputy City Manager for Administration is responsible for the oversight and management of five City departments which include Finance, Human Resources, Information Technology, Support Services, and Administrative Services.

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, payroll, purchasing, treasury management, risk management, and maintenance of the City's fixed assets inventory.

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.

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

The Department of Support Services is responsible for fleet operations, building construction management, and real estate services. It also has responsibility for 9-1-1 dispatch services and building maintenance operations. It also oversees the Municipal Court Operations which collects court fines, sets trial dockets, and maintains the Municipal Court records.

The Administrative Services Department works with news media, issues publications, and implements programs to educate and inform citizens about City policies and programs. It also oversees the City Secretary's Office which transcribes and maintains official City records, minutes and ordinances, and conducts City elections. The department also includes General Services which provides printing, copying, records management, and mailroom services to the organization.

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, as well as the Internal Audit Division.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 745 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 142,154 calls for service in fiscal year 2004. 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 28,734 calls for service in fiscal year 2004. The 302 employees of the Fire Department provide emergency responses from the City's 16 fire stations. The Emergency Management Office is responsible for coordinating major emergency disaster responses for the City.

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

The Neighborhood Services Department is responsible for providing a communication and service link between the residents and business owners of Arlington and all City Departments. 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.

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.

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 ozonated treatment capacity of 75 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. Lake Benbrook, which is owned by the U.S. Army Corps of Engineers, is used by the TRWD system to supply water to both water treatment plants. The JFKWTP currently has a rated ozonated 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 the 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 47.7 million gallons.

The City's water distribution system is fully metered and consists of 1,350 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 Pumpage (MGD)	Maximum Daily Pumpage (MGD)
1995..................................	46.71	95.50
1996..................................	52.08	92.57
1997.................................	49.53	99.48
1998..................................	58.47	121.97
1999..................................	56.20	108.31
2000..................................	63.89	128.23
2001..................................	57.96	113.14
2002..................................	57.76	112.88
2003..................................	57.13	120.02
2004..................................	54.68	91.19

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 60 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 Reservoir, completed in 1964 and Richland Chambers Reservoir completed in November 1987. Water from these reservoirs is transported 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 water supply service was initially provided under the terms and provisions of a contract dated July 13, 1971. Under that contract, the District agrees 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.

The District’s most recent system enhancement was the Benbrook Connection Project completed in the fall of 1998. It consists 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. It now benefits all District customers by allowing the District to reduce electrical costs by using Benbrook for off peak pumping and storage.

In May 1999, the District issued $22,725,000 (Series 1999) in Water Revenue Refunding and Improvement Bonds, which were issued to refund the Benbrook Lake Water Surplus Contract with the U.S. Army Corp of Engineers in the amount of $1,848,750, and to fund a Wetland Water Treatment System for Richland Chambers, and for construction, improvements and repairs to the District’s Water system. In March 2001, $15,890,000 in Water Revenue Refunding Bonds (Series 2001) were issued to refund the Series 1992-A bonds. Additionally in March 2002, the District issued $331,430,000 in Water Revenue Refunding and Improvement Bonds (Series 2002) to refund the Series 1993 Series Bonds and to fund the acquisition and expansion of the Wetland Water Treatment System for Richland Chambers, for design/engineering of the pipeline connection to Eagle Mountain Lake and other construction, improvements and repairs to the District’s Water System. Construction of the Richland Chambers Dam and Reservoir Project was funded with proceeds derived from the sale of Water Revenue Bonds, which were originally issued in 1979 (Series 1979-A), and have since been refunded with the Series 2002 Bonds.

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 usage of the City for the 2005 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,138,724, which results in a rate of approximately 61.277 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.

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, 2000, through September 30, 2004.

	Average Daily Consumption (MGD)				
Category	**2004**	**2003**	**2002**	**2001**	**2000**
Residential	25.50	27.47	26.07	29.43	30.45
Commercial	11.63	11.09	11.61	15.46	15.27
Fire lines, Sprinklers*....................................	4.60	4.76	3.98	-	-
Apartment Units	9.03	9.14	9.64	10.08	10.26
Mobile Homes, Condominiums, Townhouses	.79	.84	.87	.67	.68
Total	51.55	53.30	52.17	55.64	56.66

*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, 2000, through September 30, 2004.

Number of Units Served

Category	2004	2003	2002	2001	2000
Residential	88,289	86,444	84,774	84,926	82,673
Commercial	3,821	5,338	5,507	7,258	7,112
Fire lines, Sprinklers*	1,997	952	925	-	-
Apartment Units	41,059	45,838	45,397	46,057	45,206
Mobile Homes, Condominiums, Townhouses	4,166	4,252	4,252	4,043	4,016
Total	139,332	142,824	140,855	142,284	139,007

*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, 2004. Billing will vary based on the number of meters, increased minimum charges for larger meters, and higher commodity charges for sprinkler usage. During this period, the top ten customers' total annual water billings, which represented 9.95 percent of the System's water sales were as follows:

	Consumption in 1,000 Gallons	Billing
National Semiconductor	366,584	$ 747,091
Arlington Independent School District	323,444	898,830
General Motors	273,852	562,884
University of Texas at Arlington	271,859	670,415
City of Arlington	265,076	822,187
Six Flags Park	106,399	240,047
Arlington Memorial Hospital	87,637	189,593
Six Flags Hurricane Harbor	62,967	131,851
Indian Creek Apartments	58,463	124,513
Park Lane Apartments	55,378	112,117
Total	1,871,659	$4,499,528

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
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
2003	99,144	20,853	57.13	120.02	583	2.10
2004	101,057	20,013	54.68	91.19	543	1.67

Source: City Water Utilities Department.

WASTEWATER FACILITIES

The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,181 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 28 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)

	2004	2003	2002	2001	2000
TRA CRWS Plant	15,522	15,102	16,020	16,374	10,502
Fort Worth Village Creek Regional Plant	0	0	0	4,297	4,297
Total	15,522	15,102	16,020	16,374	14,799

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 plans. A new five-year plan for 1997-2001 resulted in relief and rehabilitation of interceptors and 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 as identified in the 2001 Capital Improvement Plan update. 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.

TRA's updated five-year capital improvement plan for 2004-2009 has been completed recommending treatment process improvements and interceptor rehabilitation. Initial funds of $106 million were obtained from a 2004 bond issue. Additional bonds in the amount of $9.5 million will be issued in 2005 for land acquisition. The current plan calls for another bond issue in 2007 to complete the objectives of the updated capital improvement plan.

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 Platinum Award for the second time in a row, signifying ten continuous years of 100% permit compliance. 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, 2004, the volume of contributing flow by the City is estimated to average 42.64 MGD, which amounts to approximately 28 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 2005 is $15,711,720. 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 2004 estimated population for the City of Arlington is 355,634. The following table presents population figures for selected years.

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

Year	Arlington	Annual Rate of Change	United States	Annual Rate of Change
1950	7,692	-- %	150,697,361	-- %
1960	44,775	19.3	178,464,236	1.71
1970	90,229	7.3	203,211,926	1.31
1980	160,113	5.9	226,545,805	1.09
1990	261,721	5.0	248,765,170	0.94
2000	332,969 (1)	2.4	281,421,906	1.40
2003	351,719	1.9	290,809,777	1.11
2004	355,634	1.1	293,655,404	1.01

(1) Actual 2000 Census population.

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

Per Capita Personal Income

	2002	2001	2000
Tarrant County	$31,307	$31,412	$30,299
Texas	29,039	28,943	28,313
United States	30,906	30,527	29,847

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, fifty elementary schools, a pre-kindergarten campus, and five alternative schools. Currently, a professional staff of approximately 4,081 serves a peak enrollment of 62,531 students.

The University of Texas at Arlington, founded in 1895, features a current enrollment of 25,297 and offers 202 degree programs at the baccalaureate, master and doctoral levels. The physical plant, located on a 396 acre campus, includes 105 University academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in Arlington during 1996. Enrollment at the 123-acre site features a current enrollment of approximately 9,231 students. The college has 430 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
1996	52,328	3.64%
1997	53,757	2.67
1998	54,961	2.24
1999	56,234	2.32
2000	57,433	2.13
2001	59,342	3.32
2002	60,760	2.39
2003	62,104	2.21
2004	62,345	0.39
2005	62,531	0.30

Source: Arlington Independent School District.

Employment

Arlington Major Employers

Name	Type of Business	Number of Employees
Arlington Independent School District	Public Education	7,905
University of Texas at Arlington	Higher Education	6,161
Six Flags Over Texas	Amusement Park	3,200[(1)]
General Motors	Automobile Assembly	3,000
City of Arlington	Municipality	2,342
Arlington Memorial Hospital	Medical Center	2,100
Texas Rangers Baseball Club	Sports Entertainment	1,800[(1)]
Americredit	Finance	1,300
Providian Financial	Financial Services	1,200
National Semiconductor	Semiconductor Manufacturer	1,100
Chase Bank Call Center	Banking Services	1,000
Doskocil Manufacturing	Manufacturer	1,000

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

Source: Arlington Chamber of Commerce. 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 2004, the City's unemployment rate averaged 4.9 percent compared to the U.S. rate of 5.6 percent and the Texas rate, which was 5.9 percent.

Unemployment Rate
Annual Average Rates
2000 to 2004

	2004	2003	2002	2001	2000
Arlington	4.9%	5.5%	5.4%	3.6%	2.8%
Texas	5.9	6.8	6.3	4.9	4.3
United States............................	5.6	6.0	5.8	4.8	4.0

Source: U.S. Bureau of Labor Statistics.

Financial Institutions

There are fifty-five commercial banks, state banks and savings and loan associations in the City.

Building Permits

During the FY 2004 the City issued 6,818 building permits with a total value of $443,696,832. Presented below is a table covering building permit activity for the last three fiscal years:

	2004		2003		2002	
	Number	Value (000's)	Number	Value (000's)	Number	Value (000's)
Residence	1,707	$251,102	1,719	$242,753	2,242	$288,065
Duplex	21	2,568	22	2,802	18	1,884
(No. of Units)	(42)	-	(44)	-	(36)	-
Apartments	60	36,303	16	18,170	12	13,240
(No. of Units)	(912)	-	(250)	-	(192)	-
Commercial	474	60,439	431	95,549	181	124,820
Institutional	47	49,089	73	51,926	47	109,007
Alterations and Additions	188	18,812	158	28,323	529	22,834
Signs	1,431	2,737	1,168	2,227	1,359	2,613
Miscellaneous	2,890	22,647	3,314	38,664	3,612	37,092
Total	6,818	$443,697	6,901	$480,414	8,000	$599,555

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 financial 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, 2004, the following percentages of the City's operating funds were invested in the following categories of investments:

Type of Investment	% Invested
U.S. Treasury Notes & Bills	55.9%
Federal Agencies	36.2
Statewide Pool	6.3
Money Market Account	1.6
Totals	100.0%

As of September 30, 2004, the weighted average maturity of the City's operating portfolio was 228 days and the market value of the operating portfolio was 99.83 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 AND WASTEWATER SYSTEM REVENUE BONDS

Fiscal Year Ending 9/30	Outstanding Bonds[1] Principal	Interest	Total	The Bonds[2] Principal	Interest	Total	Total Debt Service
2005	$10,145,000	$ 1,909,276	$ 12,054,276	$ 0	$ 0	$ 0	$ 12,054,276
2006	9,385,000	3,381,816	12,766,816	895,000	782,646	1,677,646	14,444,462
2007	8,615,000	2,978,800	11,593,800	895,000	650,440	1,545,440	13,139,240
2008	6,135,000	2,615,976	8,750,976	895,000	623,590	1,518,590	10,269,566
2009	6,095,000	2,368,610	8,463,610	895,000	596,740	1,491,740	9,955,350
2010	6,050,000	2,113,352	8,163,352	895,000	569,890	1,464,890	9,628,242
2011	5,400,000	1,867,531	7,267,531	895,000	543,040	1,438,040	8,705,571
2012	5,060,000	1,639,513	6,699,513	895,000	507,240	1,402,240	8,101,753
2013	4,610,000	1,422,211	6,032,211	895,000	462,490	1,357,490	7,389,701
2014	4,170,000	1,219,333	5,389,333	895,000	417,740	1,312,740	6,702,073
2015	4,155,000	1,031,161	5,186,161	895,000	372,990	1,267,990	6,454,151
2016	3,630,000	841,543	4,471,543	895,000	337,190	1,232,190	5,703,733
2017	3,030,000	671,367	3,701,367	895,000	301,390	1,196,390	4,897,757
2018	3,030,000	530,348	3,560,348	895,000	265,590	1,160,590	4,720,938
2019	2,630,000	388,537	3,018,537	895,000	229,790	1,124,790	4,143,327
2020	2,630,000	264,938	2,894,938	895,000	192,871	1,087,871	3,982,809
2021	1,595,000	140,547	1,735,547	895,000	155,281	1,050,281	2,785,828
2022	785,000	67,118	852,118	895,000	117,244	1,012,244	1,864,362
2023	785,000	33,755	818,755	895,000	79,206	974,206	1,792,961
2024	0	0	0	890,000	40,050	930,050	930,050
	$87,935,000	$25,485,732	$113,420,732	$17,000,000	$7,245,418	$24,245,418	$137,666,150

[1] As of February 15, 2005
[2] FY 2006 interest is net of accrued interest of $63,966.28.

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 section 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 fiscal years shown.

Proposed Capital Improvement Program

Fiscal Year	Planned Capital Expenditures	Planned Bond Sale	Other Capital Financing Sources[1]
2005	$30,455,000	$17,000,000	$13,455,000
2006	26,481,000	16,500,000	9,981,000
2007	33,750,000	24,000,000	9,750,000
2008	24,750,000	15,000,000	9,750,000
2009	24,750,000	15,000,000	9,750,000

(1) These 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.

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 August 2003, the City Council approved transitioning to a phased cost of service rate methodology and the introduction of conservation rate blocks. In order to minimize the impact to rate payers of implementing a full cost of service rate structure, cost of service rates will be phased in over a five-year period which began with fiscal year 2004. The two components of the rate structure are a fixed monthly charge based upon meter size and a commodity charge per 1,000 gallons used.

A separate fixed monthly fee scale has been established for residential class customers with ¾ inch meters whose water and wastewater use is less than 2,000 gallons per month. The fixed charge for meter sizes other than ¾- inch increases with meter size to recognize the additional demands that large meter installations place on the system.

The water commodity charge, is designed to encourage customers to efficiently use water. The commodity charge increases with higher volumes of water usage for both residential and commercial class customers. Unlike the variable water commodity rate, the wastewater commodity rate per 1,000 gallons is a flat rate for all account classifications that will not change based on usage. Beginning in fiscal year 2004, the 2,000 gallon volume credit was removed from the wastewater fixed monthly charge.

CITY OF ARLINGTON WATER UTILITIES
FIXED MONTHLY FEE

Meter Size	Water	Wastewater
3/4" (<2,000 gal)	$ 3.90	$3.10
3/4" (>2,000 gal)	5.60	5.00
1"	9.80	8.75
1 1/2"	22.40	20.00
2"	39.20	35.00
3"	92.80	50.50
4"	169.16	88.37
6"	389.88	201.84
8"	610.60	315.35
10"	917.20	473.00

CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0 - 2	$1.50	$2.42
3 - 10	1.79	2.42
11 - 15	2.29	2.42
> 16	2.79	2.42

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0-15	$1.62	$2.42
> 15	1.98	2.42

SPRINKLER

Usage (1,000 gal)	Rate
All Usage	$2.79

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 winter 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
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
2004	(8.4)	46.9	10.7
2005	2.6	3.4	2.9

Source: City Water Utilities Department.

Operating Reserve

The current policy, authorized by the City Council in May 2003, requires the operating reserve to equal a minimum of 45 days of the proposed operating and maintenance expense budget, excluding debt service. Additionally, the reserve can be increased to a 60 day level using excess unbudgeted revenues, if available. The reserve fund balance as of September 30, 2004, was increased to $10,781,809, which equals 60 days of operating and maintenance expense.

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. 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	2004	2003	2002	2001	2000
Cash and cash equivalents	$ 11,777	$ 9,986	$ 6,748	$ 13,235	$ 15,413
Receivable (net of allowances for uncollectibles)	11,560	11,867	12,500	11,236	14,713
Inventory of supplies, at cost	482	359	406	469	469
Restricted assets:					
Bond contingency	10,844	10,907	12,282	11,891	10,966
Capital/Bond construction	32,491	22,509	35,295	24,697	22,250
Meter deposits	3,635	3,597	3,522	3,264	3,227
Property, plant and equipment less accumulated depreciation	414,073	394,598	378,747	362,488	335,470
Total Assets	$484,902	$453,823	$449,500	$427,280	$402,508
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	$ 3,627	$2,564	$ 3,766	$ 4 ,071	$ 2,250
Payable from restricted assets	10,712	10,215	10,871	10,342	11,450
Accrued compensated absences					
Current	85	64	55	92	79
Non Current/Long Term	1,593	1,600	1,575	1,352	1,272
Revenue bonds, net of discount, payable from unrestricted assets	83,927	79,411	90,720	87,048	79,259
Trinity River Authority bonds payable from unrestricted assets	-	-	-	-	-
Total Liabilities	$99,944	$93,854	$106,987	$102,905	$94,310
Net Assets/Equity:					
Contributed capital -					
From other municipalities or governmental units	-	-	-	9,097	9,097
In aid of construction	-	-	-	110,031	104,061
Retained earnings -					
Reserved	-	-	-	6,335	5,959
Unreserved	-	-	-	198,912	189,081
Invested in Capital Assets	342,561	317,563	299,616	-	-
Restricted	9,460	9,638	-	-	-
Unrestricted	32,937	32,768	42,897	-	-
Total Assets/Equity	384,958	359,969	342,513	324,375	308,198
Total Liabilities and Net Assets/Equity	$484,902	$453,823	$449,500	$427,280	$402,508

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

Revenues	2004[1]	2003	2002	2001	2000
Water Sales	$44,857	$47,206	$45,855	$39,901[2]	$50,818
Wastewater Service	37,615	30,058	29,733	29,366	29,546
Interest Income	1,112	1,209	1,893	3,462	3,461
Other Income	6,002	4,626	5,159	5,214	5,420
Total Revenues	$89,586	$83,099	$82,640	$77,943	$89,245
Expenses					
Labor Costs	$13,017	$12,646	$12,366	$11,591	$10,850
Supplies	1,924	1,739	1,898	2,352	1,949
Maintenance	1,964	2,030	2,361	1,945	1,911
Water Supply (The District)	12,697	12,423	13,059	12,394	13,698
Wastewater Treatment Contracts	16,070	15,959	16,091	14,601	14,140
Utilities	1,907	2,528	1,392	2,482	2,150
Other Expenses	9,977	9,984	10,315	10,197	10,825
Total Operating Expenses Before Depreciation	$57,556	$57,309	$57,482	$55,562	$55,523
Net Revenues of the System	$32,030	$25,790	$25,158	$22,381	$33,722
Interest During Construction Included Above	(317)	(208)	(474)	(641)	(111)
Net Revenues Available for Debt Service	$31,713	$25,582	$24,684	$21,740	$33,611
Debt Service Paid[3]	$14,522	$16,188	$16,234	$15,021	$15,567
Debt Service Coverage (times)[4]	2.18x	1.58x	1.52x	1.45x	2.16x
Debt Service Requirements Paid From Surplus Net Revenues[5]	-	-	-	-	$185

(1) Unaudited, preliminary subject to change.
(2) Gross operating revenues in fiscal year 2001 reflect a refund of $7.0 million.
(3) Excludes TRA Revenue Bonds, accrued interest from bond sales, and refundings or cash defeasances.
(4) Unaudited.
(5) TRA (Arlington Project) Revenue Bonds.

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

	2004	2003	2002	2001	2000
Gross Operating Revenues	$88,474	$81,890	$80,747	$74,481[1]	$85,784
Interest Revenues (Excluding Interest During Construction)	795	1,001	1,419	2,821	3,350
Operating Expenses Before Depreciation	57,556	57,309	57,482	55,562	55,523
Net Revenues Available for Debt Service	$31,713	$25,582	$24,684	$21,740	$33,611
Average Annual Debt Service [2]	$6,078	$6,066	$6,664	$6,335	$5,959
Average Annual Debt Service Coverage (times) [2]	5.22x	4.22x	3.70x	3.43x	5.64x
Accounts Receivable to Gross Operating Revenues (%)	13.07%	14.49%	15.48%	15.08%	17.15%
Unrestricted Cash to Unrestricted Current Liabilities (times) [3]	3.19x	3.80x	1.77x	3.18x	6.62x
Unrestricted Current Assets to Unrestricted Current Liabilities (times) [3]	6.44x	8.45x	5.04x	5.88x	12.94
Long-term Debt to Net Plant (%)	19%	18%	22%	22%	22%

[1] Gross Operating Revenues in fiscal year 2001 reflect a refund of $7.0 million.
[2] Unaudited.
[3] 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 794 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

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

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

Plan provisions for the City were as follows (as of 4/1/04):

Deposit Rate:	7%
Matching Ratio: (City to Employee)	2 to 1
A member is vested after:	5 years

Under the state law governing TMRS, the actuary annually determines the City contribution rate. 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 the 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/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) 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 2004, the City's annual pension cost of $13,955,035 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an 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**
9/30/02	$14,098,512	100.00%	-
9/30/03	$14,117,102	100.00%	-
9/30/04	$13,955,035	100.00%	-

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. 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. The annual actuarial study in May 1999 estimated that the $7,000,000 of proceeds would adequately fund the self-insurance program through September 30, 2004. The City annually receives a report from its actuary indicating the adequacy of the funding of the City's self-insurance program. The most recent report received by the City on November 16, 2004, reflects that the self-insurance program should be adequately funded from funds currently on deposit through September 30, 2006.

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. Prior to such date it is anticipated the City Council will review the program for extension.

As of September 30, 2004, the total current assets less accounts payable and estimated current claims payable were $4,285,000. The estimated non-current claims payable (long term claims) at September 30, 2004 was $1,590,000. 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 March 8, 2005.

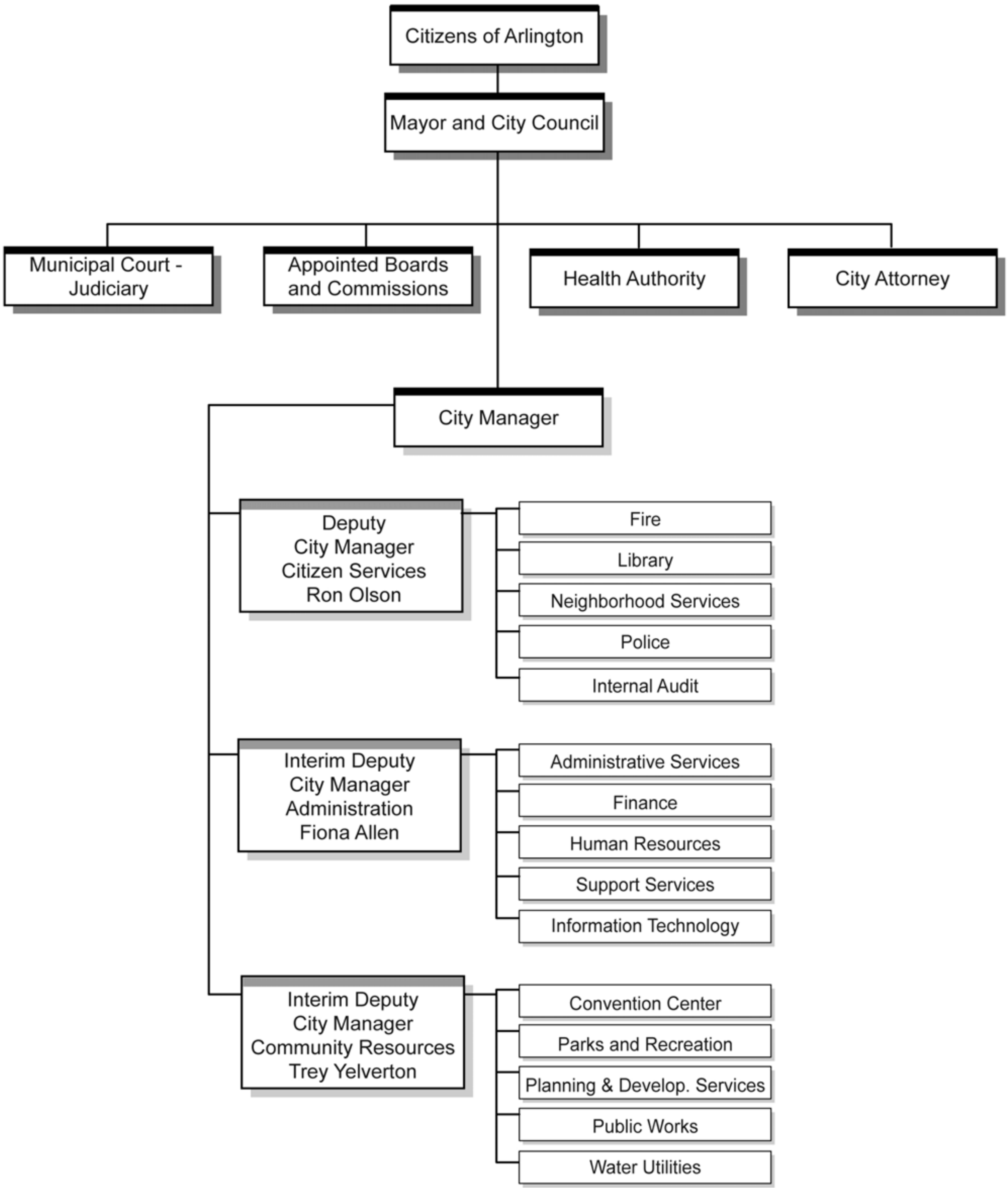
\s\ Robert N. Cluck
Mayor, City of Arlington, Texas

ATTEST:

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

APPENDIX A

City of Arlington Organization Chart



APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS
OF THE CITY OF ARLINGTON
FISCAL YEAR 2004

Copies of the complete City of Arlington Comprehensive Annual Financial Report Year Ended September 30, 2004 may be obtained from the City's Treasury Manager.

CITY OF ARLINGTON, TEXAS
BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
TABLE OF CONTENTS

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

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, Texas (the City) as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the component unit financial statements for the Arlington Housing Authority and the Arlington Convention and Visitors Bureau, Inc. which reflect total assets of $5,459,000 and $364,000, respectively, as of September 30, 2004, and total revenues of $26,528,000 and $3,159,000, respectively, for the year then ended, which represent 8.25% and 0.55%, and 81.71% and 9.73%, respectively, of the assets and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arlington Housing Authority and the Arlington Convention and Visitors Bureau, Inc. is based on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Arlington Convention and Visitors Bureau, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our report and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 – 14, and the schedules of funding progress on page 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 11, 2005

CITY OF ARLINGTON, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

SEPTEMBER 30, 2004

This discussion and analysis of the City of Arlington's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2004. It should be read in conjunction with the accompanying letter of transmittal and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The City of Arlington's net assets of governmental activities increased by $18.4 million or 4.6 percent this year, primarily because of an increase in the City's cash and investments of approximately $20.1 million. The City has higher cash and investment balances this year compared to last year due to revenues exceeding expenditures in the General Fund and in several non-major funds.

- The City's increase in total net assets of $44.7 million for the year ended September 30, 2004 was $14.2 million higher than for the year ended September 30, 2003. This $14.2 million is equally attributable to higher property tax revenue in the General Fund and Debt Service Fund and an increase in sewer service revenue in the Water and Sewer Fund.

- As of September 30, 2004, the City of Arlington's governmental funds reported combined ending fund balances of $116.1 million, an increase of $18 million in comparison with the prior fiscal year. The majority of this change is due to increases in fund balance for Other Nonmajor Funds including a $5 million increase in special revenue fund balances and a $7 million increase in capital projects fund balances. The special revenue fund balance increase is primarily attributable to revenues exceeding expenditures in the Street Maintenance Fund. The increase in the capital projects fund balances is due to the issuance of general obligation bonds in various funds such as Municipal Office Facilities, Library, Parks and Traffic. Revenues exceeding expenditures in the General Fund account for the remaining increase in fund balance.

- At the end of the current fiscal year, unreserved General Fund balance was $22.9 million compared to $19.5 million last year. Last year, unreserved fund balance was fully designated for various purposes such as working capital requirements and subsequent years' expenditures. This year, after designating fund balance for these various purposes, $0.7 million remained undesignated.

- The City's total debt of $382,609 million is substantially unchanged this year versus last year. Of the total debt, $295,300 million relates to the operation of the general government and $87,309 million relates to water and wastewater activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

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

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

The City as Trustee

Reporting the City's Fiduciary Responsibilities

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

Notes to the Financial Statements

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

Other Information

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

THE CITY AS A WHOLE – Government-wide Financial Analysis

The City's combined net assets were $838 million as of September 30, 2004. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business- type activities net assets are $419 million. This analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net assets (79.8 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Summary of Net Assets
(Amounts Expressed in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	$ 157	$ 139	$ 101	$ 93	$ 258	$ 232
Capital assets	612	618	422	402	1,034	1,020
Total assets	769	757	523	495	1,292	1,252
Long-term liabilities	295	298	83	81	378	379
Other liabilities	55	58	21	21	76	79
Total liabilities	350	356	104	102	454	458
Net assets:						
Invested in capital assets, net of related debt	318	322	351	325	669	647
Restricted	3	-	9	10	12	10
Unrestricted	98	79	59	58	157	137
Total net assets	$ 419	$ 401	$ 419	$ 393	$ 838	$ 794

Governmental Activities

The City's general revenues increased when compared to the prior year by 6.7 percent or $11.9 million. The primary reason for this increase was due to an $11.4 million or 7.9 percent increase in overall tax revenue. Property tax revenue increased due to increased property valuations and the addition of new property throughout the City. The assessed value of the property in the City increased by $674.7 million or 4.7 percent while the property tax rate of $0.6480 per $100 assessed valuation increased $0.014 or 2.2 percent. In the General Fund, sales tax revenue increased $0.8 million or 2.2 percent over the previous year.

Table 2
General Revenues
(Amounts Expressed In Thousands)

	2004	2003	Increase (Decrease)
Taxes	$ 157,143	$ 145,689	$ 11,454
Utility franchise fees	29,321	29,181	140
Interest income	1,957	2,040	(83)
Other revenue	2,690	2,268	422
Total general revenues	$ 191,111	$ 179,178	$ 11,933

Governmental and Business-type activities increased the City's net assets by $44.7 million for the year ended September 30, 2004 and $30.5 million for the year ended September 30, 2003. The key elements of these increases are as follows:

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for services	$ 33,669	$ 33,422	$ 95,207	$ 89,618	$ 128,876	$ 123,040
Operating grants and contributions	7,758	8,728	-	-	7,758	8,728
Capital grants and contributions	5,730	8,525	6,656	6,064	12,386	14,589
General Revenues:						
Taxes	157,143	145,689	-	-	157,143	145,689
Utility franchise fees	29,321	29,181	-	-	29,321	29,181
Other	4,647	4,308	1,119	1,417	5,766	5,725
Total revenues	238,268	229,853	102,982	97,099	341,250	326,952
Expenses:						
General government	30,646	28,511	-	-	30,646	28,511
Public safety	93,852	89,554	-	-	93,852	89,554
Public works	55,350	57,768	-	-	55,350	57,768
Public health	1,321	1,424	-	-	1,321	1,424
Parks and recreation	20,633	21,327	-	-	20,633	21,327
Public welfare	5,410	7,282	-	-	5,410	7,282
Convention and event services	5,347	5,478	-	-	5,347	5,478
Interest and fiscal charges	14,548	15,102	-	-	14,548	15,102
Water and sewer	-	-	67,232	68,282	67,232	68,282
Landfill	-	-	2,207	1,731	2,207	1,731
Total expenses	227,107	226,446	69,439	70,013	296,546	296,459
Increase in net assets before transfers	11,161	3,407	33,543	27,086	44,704	30,493
Transfers	7,238	9,254	(7,238)	(9,254)	-	-
Increase in net assets	18,399	12,661	26,305	17,832	44,704	30,493
Net Assets, October 1	400,872	388,211	392,902	375,070	793,774	763,281
Net Assets, September 30	$ 419,271	$ 400,872	$ 419,207	$ 392,902	$ 838,478	$ 793,774

The most significant governmental expense for the City was in the area of public safety, which incurred expenses of $93.9 million, representing a $4.3 million increase when compared to the prior fiscal year. The components of public safety are police and fire. Police accounted for $60.6 million in public safety expense this year compared to $56.9 million last year, a 6.6 percent increase. Salary and benefits of $51.4 million comprised 84.8 percent of Police expense for the year ended September 30, 2004 as compared to salary and benefit expense of $49.0 million equaling 86.1 percent of last year's expense. The increase in salary and benefit expense is the result of a combination of general pay increases and the expiration of grant reimbursement programs for various officer positions. These expenses were offset by revenues collected from a variety of sources, with the largest amount coming from fines and forfeitures, which were $7.3 million for the fiscal year ending September 30, 2004, a decrease of $0.2 million or 2.7 percent. Fire accounted for $31.6 million in public safety expense this year, compared to $30.0 million last year, an increase of 5.3 percent. Salary and benefits of $27.0 million made up 85.4 percent of Fire expense for the year ended September 30, 2004 compared to salary and benefit expense of $26.1 million comprising 87.0 percent of last year's expense. The increase in salary and benefit expense is primarily attributable to general pay increases.

Other significant governmental expenses for the City include public works at $55.4 million for the year ended September 30, 2004 compared to $57.8 million last year, a 4.2 percent decrease. This decrease is primarily attributable to a decline in capitalized construction-in-progress expenditures this year of $5.0 million. Offsetting the decrease is an increase in salary and benefits and depreciation expense. This year, salary and benefits was $16.5 million and depreciation expense was $28.5 million compared to last year's expense which included $15.8 million in salary and benefits and $28.4 million in depreciation expense.

Business-type Activities

Revenues of the City's business-type activities were $103.0 million for the fiscal year ending September 30, 2004. Revenues increased by approximately $6.1 million or 6.1 percent. Expenses for the City's business-type activities were $69.4 million for the year, a slight decrease of $0.6 million or 0.8 percent. The resulting increase in net revenues is due to several factors, including the following:

- The City's water and sewer system recorded charges for services of $88.5 million, an increase of $6.6 million over last year, and a non-cash revenue source of $6.4 million of capital contributions that represent developer contributions. Developer contributions represent subdivision infrastructure, which upon completion, is contributed to the resources of the City. Excluding developer contributions, the water and sewer system charges for services of $88.5 million exceeded expenses of $67.2 million by $21.3 million. The most significant expenses of the water and sewer fund were $12.7 million to purchase water, $16.1 million for the purchase of sewage treatment and $13.0 million in salaries and benefits. Overall the City's water and sewer system's net revenues of $27.6 million (including developer contributions) for this year were higher than last year's net revenue of $19.4 million. This $8.2 million increase is primarily due to increased sewer service revenue of $7.6 million attributable to the implementation of a new cost-of-service rate structure. Also, the policy of charging past due fees on unpaid water and sewer balances established in FY 2004 contributed to the increase.

- The City's landfill activity recorded charges for services of $6.7 million, a decrease of $1.0 million over last year. Expenses were $2.2 million, $0.5 million less than last year, resulting in net revenue of $4.5, approximately $1.5 million less than last year. The decrease in landfill net revenue is primarily attributable to discontinuing rate payer contributions to the residential rate stabilization fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2004, the City had $1.034 billion invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of $14 million or 1.4 percent over the prior fiscal year. The $14 million increase combines a $6 million decrease in Governmental Activities with a $20 million increase in Business-type Activities. The decrease in Governmental Activities is the result of lower capital outlays for construction in progress, primarily in Public Works. The increase in Business-type Activities is due to increased capital outlays for the water and sewer system. Footnote 4 in the notes to the financial statements provides more detailed information regarding the City's capital asset activity.

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 71,831	$ 69,739	$ 10,950	$ 9,474	$ 82,781	$ 79,213
Buildings and improvements	111,836	101,185	3,441	3,438	115,277	104,623
Equipment	15,427	16,354	1,259	1,631	16,686	17,985
Construction in progress	102,931	114,885	82,310	72,902	185,241	187,787
Infrastructure	309,626	315,712	-	-	309,626	315,712
Water and sewer system	-	-	324,437	314,749	324,437	314,749
Totals	$ 611,651	$ 617,875	$ 422,397	$ 402,194	$ 1,034,048	$ 1,020,069

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

- Private developer capital contributions of $6.4 million to the City's water, sewer, and drainage infrastructure in connection with various residential and commercial developments

- Water and sewer system capital improvements and expansion totaling $11.9 million

- A variety of street maintenance, storm drainage, and street construction projects with capital outlay totaling $15.9 million

- Various capital outlays totaling $4.8 million for improvement of the City's parks and recreation facilities

- Various capital outlays of $3.2 million for police and fire public safety improvements

Debt

At year-end, the City had $382.6 million in General Obligation Bonds, Revenue Bonds and Combination Tax and Revenue Certificates of Obligations outstanding, substantially unchanged from last years' $382.5 million as shown in Table 5.

Table 5
Outstanding Debt
(Amounts Expressed In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds (backed by the City)	$ 260,555	$ 259,879	$ -	$ -	$ 260,555	$ 259,879
Combination tax and revenue certificates of obligation (backed by the City)	34,745	39,630	-	-	34,745	39,630
Revenue bonds (backed by fee revenues)	-	-	87,309	82,982	87,309	82,982
Totals	$ 295,300	$ 299,509	$ 87,309	$ 82,982	$ 382,609	$ 382,491

During the current fiscal year the City issued debt in February and July of 2004. The new debt resulted primarily from the issuance of general obligation permanent improvement bonds in the amount of $24.2 million. The bonds were issued for the purpose of making various capital improvements and were devoted to projects such as street enhancements and parks and recreation improvements. Additionally, the City issued $15.0 million in water and wastewater system revenue bonds for the purpose of improving and extending the water and wastewater system. Footnote 6 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

The City has maintained its AA rating from Standard and Poor's Corporation, its AA rating from Fitch, Inc. and its Aa2 rating from Moody's Investor Services on its tax supported debt. The City also has an AA- rating from Standard and Poor's Corporation, an Aa3 rating from Moody's Investor Service and an AA+ from Fitch, Inc. on its outstanding water and wastewater revenue bonds. The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to $2.50 per $100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net bonded debt to assessed value of all taxable property is 1.9 percent.

The City maintains a self-insurance program for bodily injury, property damage, personal injury, advertising injury, regulatory injury and worker's compensation. Claims for worker's compensation over $300,000 per occurrence are covered by a private insurance company. Claim liabilities are actuarially determined and take into consideration claim experience, adjustment expenses, economic, and other factors. Claim liability was $11.0 million at September 30, 2004 compared to $12.7 million at September 30, 2003.

THE CITY'S FUNDS

At the close of the City's fiscal year on September 30, 2004, the governmental funds of the City reported a combined fund balance of $116.1 million. This ending balance includes an increase in fund balance of $4.5 million in the City's General Fund. The General Fund was able to post this increase in fund balance primarily because of increased property tax revenue and Management's continued enforcement of cost containment measures, as described below. Also due to declining revenues from hotel occupancy taxes, $1.0 million was transferred from the General Fund to assist the Convention and Events Service Fund, a decrease of $0.2 million over last year. In addition, these other changes in fund balances should be noted:

- The City's Debt Service fund balance of $3.0 million increased $1.0 million over last year. This increase is primarily attributable to a combination of higher property tax revenue and lower interest expenditures this year compared to last year.

- The City spent $14.2 million in capital outlay in the Street Capital Projects Fund, down $1.5 million as compared to the same period in the prior year.

- The City's water and sewer fund net assets of $385.0 million increased by $25.0 million over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding operating expenses by $21.6 million.

- The City's sanitary landfill fund net assets were $34.5 million and increased by $0.8 million as compared to the prior fiscal year. This increase is the result of operating revenues exceeding operating expenses by $4.5 million, offset by a $3.8 million transfer to the General Fund.

General Fund Budgetary Highlights

During FY 2003-04, there were no budget amendments for the General Fund.

For FY 2003-04, actual expenditures on a budgetary basis were $157.0 million compared to the budget amount of $160.1 million. The $3.7 million positive variance was due to savings achieved through a series of expenditure restrictions imposed by the City Manager's Office during the year. The restrictions included a hiring freeze, a limitation on out-of-town travel, and a freeze on capital expenditures.

For FY 2003-04, actual revenues on a budgetary basis were $157.0 million as compared to the budget amount of $157.3 million. The majority of the $0.3 million positive variance was due to a $2.4 million positive variance in tax revenues, mitigated by a $1.6 million negative variance in fines and forfeitures and a $0.9 million negative variance in utility franchise fees.

The City of Arlington has an actual on a budgetary basis General Fund balance of $24.4 million as of the fiscal year-end, compared to the budgeted fund balance of $20.7 million. The variance in fund balance is primarily due to cost containment measures implemented by management.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for the business-type activities. One of the most significant factors is the City's recent revenue trends. Eighty percent of the City's general fund revenue is made up of property taxes, sales taxes, electric and telephone franchise fees. Telephone and electric franchise fees are flat because consumers are taking advantage of more efficient technologies which reduce utility usage. Sales tax revenues have stopped the declines experienced in FY 2002 and 2003; however, the City has seen only a 2.2% increase in sales tax receipts this year over last year. This is compared to many surrounding cities which have experienced double digit increases. Assessed property tax values continue to grow, but at a slower rate than previous years.

The absence of significant growth in revenue sources makes balancing the City's budget difficult. For FY 2004, the City used $3.1 million in one-time revenue to achieve a balanced budget. For FY 2005, the City will use $9.2 million in one-time revenue to close the General Fund's budget gap. The total 2004-2005 combined budget appropriation is $173.9 million. This represents an increase of $13.2 million or 8.2 percent over the 2003-2004 budget.

The General Fund's largest single revenue source is property taxes. The property tax rate for FY 2005 is $0.6480 per $100 valuation, unchanged from 2004. Of this tax rate, 62.1 percent or $0.4023 is utilized for General Fund activities. The remaining 37.9 percent or $0.2457 is used for debt service. The General Fund's portion of property tax revenue for FY 2005 is estimated to be $62.1 million up $4.5 million or 7.8 percent compared to last year. The City's portion of the sales tax rate is one and one-quarter cents. The General Fund receives one cent while the other one-quarter cent is received by the Street Maintenance Fund. Sales tax revenue for the General Fund for fiscal year 2005 is estimated at $39.1 million, up $0.5 million or 1.3 percent over last year's budgeted figure.

The largest revenue source for the Water and Sewer fund is water sales at $47.6 million. This is the charge for potable water used by customers. The City maintains a rate structure designed to ensure that each category of service is self supporting. The rate structure incorporates conservation rates designed to encourage consumers to reduce the amount of water they use. Residential conservation rates for fiscal year 2005 range from $1.50 per 1,000 gallons for the first 2,000 gallons of consumption to $2.79 per 1,000 gallons of consumption. The rate for fiscal year 2004 ranged from $1.63 per 1,000 gallons for the first 2,000 gallons of consumption to $2.73 per 1,000 gallons of consumption. These rates incorporate the cost of raw water, treatment, distribution and maintenance costs. The second largest revenue source for the Water and Sewer fund is wastewater treatment charges. The total revenue expected is $38.0 million based on a fiscal year 2005 rate of $2.42 per 1,000 gallons, $0.06 lower than last year's rate of $2.48 per 1,000 gallons. The lower commodity rates for water and sewer consumption will be offset by higher monthly fixed rates. The total revenue for the Water and Sewer Fund is budgeted at $91.9 million for fiscal year 2005.

The sanitary landfill fund's largest revenue source is the service charge paid by Arlington Disposal Company to dispose of solid waste at the City's landfill, projected to be $7.2 million for fiscal year 2005. The rate is $21.25 per ton for FY 2005, up from $18 per ton for FY 2004.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and cash equivalents	$ 125,086	$ 35,064	$ 160,150	$ 3,979
Investments	4,385	-	4,385	7,317
Receivables (net of allowance for uncollectibles):				
Taxes	4,765	-	4,765	-
Sales taxes	9,084	-	9,084	-
Grants	-	-	-	72
Leases	-	-	-	39,055
Trade accounts	130	5,963	6,093	-
Franchise fees	6,227	-	6,227	-
Unbilled trade accounts	-	5,463	5,463	-
Special assessments	508	-	508	-
Accrued interest	745	-	745	3
Settlement agreement	-	-	-	11,652
Other	3,458	635	4,093	72
Internal balances	274	(274)	-	-
Due from component units	26	-	26	-
Due from other governments	1,677	-	1,677	-
Deferred charge - issuance costs	267	-	267	-
Inventory of supplies, at cost	200	7,116	7,316	6
Prepaid expenses	49	-	49	1,817
Restricted assets-				
Bond contingency-				
Investments	-	10,757	10,757	-
Accrued interest receivable	-	127	127	-
Capital construction-				
Investments	-	32,487	32,487	-
Assessments receivable	-	4	4	-
Meter deposits-				
Investments	-	3,635	3,635	-
Capital Assets-				
Land	71,831	10,950	82,781	-
Buildings and improvements	158,131	17,216	175,347	3,301
Water and sewer system	-	465,926	465,926	-
Machinery and equipment	42,543	12,969	55,512	566
Infrastructure	724,849	-	724,849	-
Construction in progress	102,931	82,310	185,241	-
Accumulated depreciation	(488,634)	(166,974)	(655,608)	(1,660)
Total Assets	$ 768,532	$ 523,374	$ 1,291,906	$ 66,180

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
AS OF SEPTEMBER 30, 2004
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Accounts payable and accrued liabilities	$ 9,482	$ 3,711	$ 13,193	$ 2,599
Retainage payable	596	-	596	-
Due to primary government	-	-	-	26
Due to other governments	31	-	31	-
Unearned revenue	7,147	-	7,147	39,057
Accrued interest	1,866	-	1,866	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	1,728	1,728	-
Retainage payable	-	543	543	-
Accrued interest	-	1,424	1,424	-
Revenue bonds payable, current	-	3,382	3,382	-
Meter deposits	-	3,635	3,635	-
Non-current liabilities				
Due within one year:				
Estimated claims payable	5,397	-	5,397	-
Sales tax payable	149	-	149	74
General obligation debt	28,030	-	28,030	-
Accrued compensated absences	1,469	88	1,557	-
Capital lease obligation	473	-	473	-
Revenue bonds, net of discount	-	6,747	6,747	-
Due in more than one year:				
Arbitrage rebate	38	-	38	-
Estimated claims payable	5,652	-	5,652	-
Sales tax payable	1,081	-	1,081	534
Bonds payable	-	-	-	17,180
General obligation debt	267,270	-	267,270	-
Landfill closure accrued liabilities	-	3,970	3,970	-
Accrued compensated absences	20,289	1,759	22,048	-
Capital lease obligation	291	-	291	-
Revenue bonds, net of discount	-	77,180	77,180	-
Total Liabilities	349,261	104,167	453,428	59,470
NET ASSETS				
Invested in capital assets, net of related debt	317,946	350,885	668,831	463
Restricted for debt service	2,993	9,460	12,453	6,552
Unrestricted	98,332	58,862	157,194	(305)
Total Net Assets	$ 419,271	$ 419,207	$ 838,478	$ 6,710

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental Activities:				
General government	$ 30,646	$ 7,775	$ -	$ -
Public safety	93,852	9,145	1,285	524
Public works	55,350	6,059	993	4,327
Public health	1,321	1,093	-	-
Parks and recreation	20,633	7,161	-	879
Public welfare	5,410	14	5,480	-
Convention and event services	5,347	2,422	-	-
Interest and fiscal charges	14,548	-	-	-
Total Governmental Activities	227,107	33,669	7,758	5,730
Business-Type Activities:				
Water and sewer	67,232	88,474	-	6,357
Landfill	2,207	6,733	-	299
Total Business-Type Activities	69,439	95,207	-	6,656
Total Primary Government	$ 296,546	$ 128,876	$ 7,758	$ 12,386
Component Units:				
Arlington Sports Facilities Development Authority, Inc.	$ 2,662	$ 2,589	$ -	$ -
Arlington Housing Authority	26,009	-	26,315	-
Arlington Convention and Visitors Bureau	3,090	2,729	426	-
Arlington Housing Finance Authority	-	12	-	-
Arlington Industrial Development Corporation	-	-	-	-
Total Component Units	$ 31,761	$ 5,330	$ 26,741	$ -

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

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (22,871)	$ -	$ (22,871)	$ -
(82,898)	-	(82,898)	-
(43,971)	-	(43,971)	-
(228)	-	(228)	-
(12,593)	-	(12,593)	-
84	-	84	-
(2,925)	-	(2,925)	-
(14,548)	-	(14,548)	-
(179,950)	-	(179,950)	-
-	27,599	27,599	-
-	4,825	4,825	-
	32,424	32,424	-
$ (179,950)	$ 32,424	$ (147,526)	$ -
$ -	$ -	$ -	$ (73)
-	-	-	306
-	-	-	65
-	-	-	12
-	-	-	-
$ -	$ -	$ -	$ 310
157,143	-	157,143	-
29,321	-	29,321	-
1,957	1,287	3,244	240
(355)	(223)	(578)	(34)
3,045	55	3,100	188
7,238	(7,238)	-	-
198,349	(6,119)	192,230	394
18,399	26,305	44,704	704
400,872	392,902	793,774	6,006
$ 419,271	$ 419,207	$ 838,478	$ 6,710

CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 13,781	$ 3,191	$ 35,227	$ 57,762	$ 109,961
Receivables (net of allowance for uncollectibles)					
Taxes	3,603	-	-	1,162	4,765
Sales taxes	7,260	-	-	1,824	9,084
Franchise fees	6,227	-	-	-	6,227
Special assessments	-	-	508	-	508
Accrued interest	722	-	-	-	722
Other	1,762	-	3	1,693	3,458
Due from other funds	1,445	-	-	1,677	3,122
Due from component units	26	-	-	-	26
Due from other governments	-	-	-	64,121	64,121
Inventory of supplies, at cost	113	-	-	-	113
Prepaid expenditures	46	-	-	3	49
Total Assets	$ 34,985	$ 3,191	$ 35,738	$ 128,243	$ 202,157
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 5,557	$ 198	$ 953	$ 201	$ 6,909
Retainage payable	4	-	391	1,445	1,840
Due to other funds	-	-	-	31	31
Due to other governments	-	-	-	6,107	6,107
Deferred revenue-					
Taxes	3,166	-	-	-	3,166
Other	941	-	1,041	9,647	11,629
Total Liabilities	9,668	198	2,385	17,431	29,682
Fund Balances:					
Reserved for encumbrances	1,786	-	7,511	3	9,300
Reserved for debt service	-	2,993	-	-	2,993
Reserved for inventory	113	-	-	-	113
Reserved for prepaids	46	-	-	36,476	36,522
Reserved for capital projects	-	-	25,842	885	26,727
Reserved for street maintenance	-	-	-	482	482
Reserved for utility rate case	500	-	-	-	500
Reserved for court technology	-	-	-	292	292
Reserved for court security	-	-	-	-	-
Unreserved-					
General fund					
Designated for telecommunications	329	-	-	-	329
Designated for working capital	13,585	-	-	-	13,585
Designated for subsequent years' expenditures	5,018	-	-	-	5,018
Designated for arbitrage	38	-	-	-	38
Designated for compensated absences	1,411	-	-	-	1,411
Designated for other post employment benefits	1,718	-	-	-	1,718
Undesignated	773	-	-	-	773
Special revenue funds					
Designated for working capital	-	-	-	3,998	3,998
Designated for capital maintenance	-	-	-	54,474	54,474
Undesignated	-	-	-	161	161
Total Fund Balances	25,317	2,993	33,353	96,771	158,434
Total Liabilities and Fund Balances	$ 34,985	$ 3,191	$ 35,738	$ 114,202	$ 188,116

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

CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
AS OF SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

Total fund balance per balance sheet	$	158,434
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		601,180
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		4,108
Internal service funds are used by management to charge the cost of fleet services, general services, APFA, technology services, workers' compensation and group health to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets (including capital assets of $10,471).		18,247
Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.		(320,401)
Net assets of governmental activities	$	461,568

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Other Nonmajor Funds	Total Governmental Funds
REVENUES					
Taxes	$ 102,657	$ 39,772	$ -	$ 14,529	$ 156,958
Licenses and permits	4,160	-	-	-	4,160
Utility franchise fees	29,371	-	-	-	29,371
Fines and forfeitures	7,318	-	-	-	7,318
Leases, rents and concessions	3,026	-	-	-	3,026
Service charges	4,696	-	-	14,728	19,424
Interest revenue	440	310	429	694	1,873
Net increase (decrease) in fair value of investments	(60)	(7)	(113)	(143)	(323)
Contributions	-	-	2,368	285	2,653
Intergovernmental revenues	-	-	-	10,426	10,426
Other	500	124	10	1,962	2,596
Total Revenues	152,108	40,199	2,694	42,481	237,482
EXPENDITURES					
Current-					
General government	29,702	-	-	446	30,148
Public safety	92,177	-	-	3,322	95,499
Public works	17,393	-	-	10,142	27,535
Public health	1,150	-	-	102	1,252
Parks and recreation	12,501	-	-	9,364	21,865
Public welfare	-	-	-	5,546	5,546
Convention and event services	-	-	-	5,312	5,312
Capital Outlay	-	-	14,242	9,927	24,169
Debt service-					
Principal retirement	-	28,270	-	-	28,270
Interest and fiscal charges	-	14,637	-	-	14,637
Total Expenditures	152,923	42,907	14,242	44,161	254,233
Excess (deficiency) of revenues over (under) expenditures	(815)	(2,708)	(11,548)	(1,680)	(16,751)
OTHER FINANCING SOURCES (USES)					
Issuance of general obligation bonds	-	-	13,230	10,925	24,155
Issuance of capital leases	64	-	-	237	301
Proceeds from sale of capital assets	-	-	152	481	633
Transfers in	9,557	3,675	-	11,092	24,324
Transfers out	(4,295)	-	(1,098)	(9,283)	(14,676)
Total Other Financing Sources and Uses	5,326	3,675	12,284	13,452	34,737
Net Change in Fund Balances	4,511	967	736	11,772	17,986
Fund Balances, October 1	20,806	2,026	32,617	42,702	98,151
Fund balances, September 30	$ 25,317	$ 2,993	$ 33,353	$ 54,474	$ 116,137

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

CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

Net change in fund balance - total governmental funds	$ 17,986
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.	(5,398)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(5)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	4,316
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	164
Internal service funds are used by management to charge the costs of fleet management and management information systems, property liability loss, health claims and offices services to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities.	1,336
Change in net assets of governmental activities	$ 18,399

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

CITY OF ARLINGTON, TEXAS
BUDGETARY COMPARISON STATEMENT
GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	Budgeted Amounts		Actual Amounts			
	Original	Final	Actual	Adjustments to Budgetary Basis	Actual on Budgetary Basis	Variance with Final Budget-Positive (Negative)
REVENUES						
Taxes	$ 100,294	$ 100,294	$ 102,657	$ -	$ 102,657	$ 2,363
Licenses and permits	4,194	4,194	4,160	-	4,160	(34)
Utility franchise fees	30,288	30,288	29,371	-	29,371	(917)
Fines and forfeitures	8,904	8,904	7,318	-	7,318	(1,586)
Leases, rents and concessions	3,446	3,446	3,026	500	3,526	80
Service charges	9,825	9,825	4,696	4,851	9,547	(278)
Interest revenue	341	341	440	-	440	99
Other revenue	-	-	500	(500)	-	-
Net decrease in the fair value of investments	-	-	(60)	60	-	-
Total Revenues	157,292	157,292	152,108	4,911	157,019	(273)
EXPENDITURES						
Current-						
General government	29,338	29,338	29,702	(1,419)	28,283	1,055
Public safety	94,423	94,423	92,177	1,599	93,776	647
Public works	22,250	22,250	17,393	3,456	20,849	1,401
Public health	1,140	1,140	1,150	6	1,156	(16)
Parks and recreation	13,517	13,517	12,501	438	12,939	578
Total Expenditures	160,668	160,668	152,923	4,080	157,003	3,665
Excess (Deficiency) Of Revenues Over (Under) Expenditures	(3,376)	(3,376)	(815)	831	16	3,392
OTHER FINANCING SOURCES (USES)						
Issuance of capital leases	-	-	64	(64)	-	-
Transfers in	7,492	7,492	9,557	(2,006)	7,551	59
Transfers out	(4,116)	(4,116)	(4,295)	362	(3,933)	183
Total Other Financing Sources (Uses)	3,376	3,376	5,326	(1,644)	3,618	242
Net Change In Fund Balances	-	-	4,511	(813)	3,634	3,634
Fund Balances, October 1	20,745	20,745	20,806	-	20,806	61
Fund Balances, September 30	$ 20,745	$ 20,745	$ 25,317	$ (813)	$ 24,440	$ 3,695

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			Governmental Activities-
	Water and Sewer	Sanitary Landfill	Total	Internal Service Funds
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 11,777	$ 23,287	$ 35,064	$ 15,125
Investments	-	-	-	4,385
Receivables (net of allowances for uncollectables):				
Trade accounts	5,963	-	5,963	130
Accrued interest	-	-	-	23
Unbilled trade accounts	5,463	-	5,463	-
Other	134	501	635	-
Inventory of supplies, at cost	482	6,634	7,116	87
Total Current Assets	23,819	30,422	54,241	19,750
Non-Current Assets:				
Restricted Assets:				
Bond contingency-				
Investments	10,757	-	10,757	-
Accrued interest	127		127	-
Capital construction-				
Investments	32,487	-	32,487	-
Assessments receivable	4	-	4	-
Meter deposit investments	3,635		3,635	-
Capital Assets:				
Land	4,828	6,122	10,950	-
Buildings and improvements	2,833	14,383	17,216	467
Water and sewer system	465,926	-	465,926	-
Machinery and equipment	9,739	3,230	12,969	30,334
Construction-in-progress	82,310	-	82,310	-
Accumulated depreciation	(151,563)	(15,411)	(166,974)	(20,330)
Total Capital Assets Net of Accumulated Depreciation	414,073	8,324	422,397	10,471
Total Noncurrent Assets	461,083	8,324	469,407	10,471
Total Assets	$ 484,902	$ 38,746	$ 523,648	$ 30,221

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2004
(CONTINUED)
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	**Sanitary Landfill**	**Total**	**Governmental Activities- Internal Service Funds**
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 3,627	$ 84	$ 3,711	$ 911
Accrued compensated absences-Current	85	3	88	45
Revenue bonds, net of discount, payable from unrestricted assets	6,747	-	6,747	-
Capital lease obligation	-	-	-	22
Current Liabilities Payable From Restricted Assets:				
Accounts payable and accrued liabilities	1,728	-	1,728	-
Retainage	543	-	543	-
Accrued interest	1,424	-	1,424	-
Estimated claims payable	-	-	-	5,397
Revenue bonds payable	3,382	-	3,382	-
Meter deposits	3,635	-	3,635	-
Total Current Liabilities	21,171	87	21,258	6,375
Noncurrent Liabilities:				
Estimated claims payable	-	-	-	5,652
Compensated absences	1,593	166	1,759	216
Landfill closure accrued liabilities	-	3,970	3,970	-
Revenue bonds, net of discount payable from unrestricted assets	77,180	-	77,180	-
Capital lease obligation	-	-	-	5
Total Noncurrent Liabilities	78,773	4,136	82,909	5,873
Total Liabilities	99,944	4,223	104,167	12,248
NET ASSETS				
Invested in capital assets, net of related debt	342,561	8,324	350,885	10,331
Restricted for debt service	9,460	-	9,460	-
Unrestricted	32,937	26,199	59,136	7,642
Total Net Assets	$ 384,958	$ 34,523	419,481	$ 17,973

Reconciliation to government-wide statements of net assets:	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(274)
Net assets of business-type activities	$ 419,207

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			
	Water and Sewer	**Sanitary Landfill**	**Total**	**Governmental Activities- Internal Service Funds**
Operating Revenues:				
Water sales	$ 44,857	$ -	$ 44,857	$ -
Sewer service	37,615	-	37,615	-
Landfill user charges	-	6,692	6,692	-
Service charges	-	-	-	37,982
Sundry	6,002	41	6,043	212
Total Operating Revenues	88,474	6,733	95,207	38,194
Operating Expenses:				
Purchase of water	12,697	-	12,697	-
Purchase of sewage treatment	16,070	-	16,070	-
Salaries and wages	11,633	1,457	13,090	1,499
Employees' retirement	1,384	142	1,526	207
Supplies	1,924	162	2,086	2,917
Maintenance and repairs	1,964	1,171	3,135	1,056
Utilities	1,907	77	1,984	629
Claims	-	-	-	21,408
Legal & Professional	-	-	-	868
Franchise fees	4,129	-	4,129	-
Payment in-lieu-of taxes	2,515	54	2,569	-
Depreciation	9,314	889	10,203	2,802
Closure/post-closure expense	-	(3,661)	(3,661)	-
Miscellaneous services	3,333	1,939	5,272	2,828
Total Operating Expenses	66,870	2,230	69,100	34,214
Operating Income	21,604	4,503	26,107	3,980
Nonoperating Revenues (Expenses):				
Interest revenue	939	348	1,287	179
Net decrease in the fair value of investments	(144)	(79)	(223)	(32)
Gain on sale of assets	-	55	55	128
Interest expense and fiscal charges	(843)	-	(843)	(5)
Total Nonoperating Revenues (Expenses)	(48)	324	276	270
Income before transfers and contributions	21,556	4,827	26,383	4,250
Contributions in aid of construction	6,357	-	6,357	-
Contributions of inventory	-	299	299	-
Transfers in	-	-	-	425
Transfers out	(2,924)	(4,314)	(7,238)	(2,835)
Change in Net Assets	24,989	812	25,801	1,840
Total Net Assets, October 1	359,969	33,711	393,680	16,133
Total Net Assets, September 30	$ 384,958	$ 34,523	$ 419,481	$ 17,973

Net change in net assets - total proprietary funds	$ 25,801
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	504
Change in net assets of business-type activities	$ 26,305

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Water and Sewer	Sanitary Landfill	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 88,791	$ 6,768	$ 95,559	$ 38,847
Cash payments to suppliers	(40,234)	(2,704)	(42,938)	(31,278)
Cash payments to employees	(12,944)	(1,555)	(14,499)	(1,785)
Net Cash Provided By Operating Activities	35,613	2,509	38,122	5,784
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:				
Transfers in	-	-	-	425
Transfers out	(2,924)	(4,314)	(7,238)	(2,835)
Net Cash Used For Noncapital Financing Activities	(2,924)	(4,314)	(7,238)	(2,410)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(22,431)	(1,616)	(24,047)	(2,003)
Principal payments on capital lease	-	-	-	(56)
Interest payments on capital lease	-	-	-	(5)
Proceeds from sales of capital assets	-	55	-	156
Proceeds from issuance of long-term debt	15,000	-	15,000	-
Repayment of long-term debt	(10,715)	-	(10,715)	-
Interest payment long-term debt	(3,724)	-	(3,724)	-
Net Cash Used For Capital And Related Financing Activities	(21,870)	(1,561)	(23,486)	(1,908)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from interest earnings	1,112	348	1,460	179
Net increase (decrease) in the fair value of investments	(144)	(79)	(223)	(32)
Purchase of investments	(129,234)	-	(129,234)	(9,025)
Maturities/sales of investments	119,238	-	119,238	9,684
Net Cash Provided By Investing Activities	(9,028)	269	(8,759)	806
Net Increase (Decrease) In Cash And Cash Equivalents	1,791	(3,097)	(1,306)	2,272
Cash And Cash Equivalents, October 1	9,986	26,384	36,370	12,853
Cash And Cash Equivalents, September 30	$ 11,777	$ 23,287	$ 35,064	$ 15,125
Reconciliation of operating income to net cash provided by (used for) operating activities:				
Operating income	$ 21,604	$ 4,503	$ 26,107	$ 3,980
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	9,314	888	10,202	2,802
Interest earnings capitalized	(173)	-	(173)	-
Interest expense capitalized	3,150	-	3,150	-
Amortization of bond premium	(57)	-	(57)	-
Provision for bad debts	(11)	-	(11)	-
(Increase) decrease in-				
Receivables	318	35	353	654
Inventory of supplies	(124)	716	592	56
Prepaid Expenses	-	-	-	1
Increase (decrease) in-				
Accounts payable and accrued liabilities	1,607	(17)	1,590	104
Estimated claims payable	-	-	-	(1,734)
Retainage payable	(67)	-	(67)	-
Meter deposits	38	-	38	-
Accrued compensated absences	14	45	59	(79)
Closure/post-closure liability	-	(3,661)	(3,661)	-
Total adjustments	14,009	(1,994)	12,015	1,804
Net Cash Provided By Operating Activities	$ 35,613	$ 2,509	$ 38,122	$ 5,784
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	6,357	-	6,357	-
Contributions of inventory from developers	-	299	299	-

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	$ -	$ 7,694
Investments		
Money market fund	48	-
U. S. Government bonds	148	-
Corporate bonds	247	-
Fixed income mutual bond funds	7,406	35
Common stock mutual bond funds	64,983	194
Participant borrowing	5,714	-
Self directed brokerage accounts	7,141	-
Total Investments	85,687	229
Total Assets	85,687	7,923
LIABILITIES		
Accounts payable and accrued liabilities	-	7,694
IRC 401 deferred compensation plans	-	229
Total Liabilities	-	7,923
NET ASSETS		
Held in trust for pension benefits	$ 85,687	

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(AMOUNTS EXPRESSED IN THOUSANDS)

	Pension Trust Funds
ADDITIONS	
Employer contributions	$ 2,254
Employee contributions	4,610
Net appreciation in fair value of investments	6,025
Total Additions	12,889
DEDUCTIONS	
Benefits	7,007
Plan administration	41
Total Deductions	7,048
Increase in Net Assets	5,841
Net Assets, October 1	79,846
Net Assets, September 30	$ 85,687

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

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

GAAP also requires supplementary information presented as Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the originally adopted and final General Fund budget with actual results.

B. Reporting Entity

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

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

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

Arlington Sports Facilities Development Authority, Inc.

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

Arlington Housing Authority

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

Arlington Convention and Visitors Bureau, Inc.

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

Arlington Housing Finance Corporation

The Arlington Housing Finance Corporation's (the "AHFC") board of directors is appointed by the City Council. The AHFC's management is designated by the City, and City employees are responsible for the daily activities of the AHFC; accordingly, the City has financial accountability over AHFC's activities. Separate AHFC component unit financial statements can be obtained from the City’s Finance Department.

Arlington Industrial Development Corporation

The Arlington Industrial Development Corporation's (the "AIDC") board of directors is appointed by the City Council. The AIDC's management is designated by the City, and City employees are responsible for the daily activities of the AIDC; accordingly, the City has financial accountability over AIDC's activities. Separate AIDC component unit financial statements can be obtained from the City’s Finance Department.

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

Arlington Property Finance Authority, Inc.

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

Thrift Savings Plan

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

Disability Income Plan

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

Part-Time Deferred Income Trust

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

C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

Separate fund-based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the general fund, debt service fund and street improvements fund. GAAP sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the Comprehensive Annual Financial Report.

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

Ad valorem, franchise and sales tax revenues in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

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

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

The following major funds are used by the City:

1. Governmental Funds:

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

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

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

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

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

2. Enterprise Funds:

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

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

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

3. Other Fund Types:

The City additionally reports for the following Fund types:

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

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

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

E. Cash, Cash Equivalents and Investments

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

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

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreement.

In accordance with GASB Statement No. 31, investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a transaction between willing parties.

F. Inventories and Prepaid Items

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

G. Capital Assets

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

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

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

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

H. Capitalization of Interest

The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2004, approximately $2,977,000 of interest costs, net of $173,000 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 2004 for the Water and Sewer Fund amounted to approximately $843,000 and $939,000, respectively.

I. Arbitrage Liability

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

J. Compensated Absences

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

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

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

K. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Fund Equity

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains the "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $320,401,000 difference are as follows (amounts in thousands):

Bonds payable	$293,705
Less: Deferred charge for issuance costs (to be amortized as interest expense)	(267)
Premium general obligation debt	2,436
Deferred loss refunding	(841)
Accrued interest payable	1,866
Arbitrage rebate	38
Sales tax payable	1,230
Compensated absences	21,497
Capital leases	737
Net adjustment to reduce fund balance - total governmental funds To arrive at net assets - governmental activities	$320,401

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

The governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense." The details of the $5,398,000 difference are as follows (amounts in thousands):

Capital outlay	$28,633
Depreciation expense	(34,031)
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	($ 5,398)

Another element of that reconciliation states "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $4,316,000 difference are as follows (amounts in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	($24,155)
Capital lease	(301)
Amortization of deferred loss on bond refunding	(77)
Principal repayments:	
General obligation debt	28,270
Capital lease	408
Amortization of bond premium	171
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$ 4,316

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $258,000 difference are as follows (amounts in thousands):

Compensated absences	$ (500)
Arbitrage	282
Accrued interest expense	347
Amortization of issuance cost	(20)
Sales tax	149
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$258

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

The City Council adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and certain Special Revenue Funds (Park Performance, Convention and Event Services and Street Maintenance). All unencumbered appropriations lapse at fiscal year-end, except certain of those of the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and certain Special Revenue Funds are prepared on the modified accrual basis except for encumbrances which are treated as budgeted expenditures. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. The statements comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the departmental level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During fiscal year 2004, the City Council did not approve any budgetary expenditure amendments for the General Fund.

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

> The portion of ad valorem tax revenues in the General Fund from “rolled back” tax payments (taxes, up to five years back, on properties previously taxed at special use exemption values and currently changed to full values) are excluded from the budgetary basis tax revenues and from the general governmental expenditures.
>
> Certain interdepartmental revenues and expenses are included in budgetary basis revenues and expenditures, but are eliminated from actual revenues and expenditures.

General Fund encumbrances are added to the actual expenditures for budgetary comparison. Budgetary data for the Special Revenue Funds and Capital Projects Funds have not been presented. Receipts of revenues are not estimable for all Special Revenue Funds and are not budgeted. Expenditures are limited to total revenues over the life of the funds. Capital Projects Funds are budgeted over the life of the respective project and are reviewed and approved by the City Council in an annual Capital Improvements Program plan.

IV. DETAILED NOTES ON ALL FUNDS

1. DEPOSITS AND INVESTMENTS

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by

State statutes at September 30, 2004. At year-end, the carrying amount of the City's demand deposits (excluding Component Units) was an overdraft of $(5,136,000) (bank balance, $1,272,729). The City's bank balance (excluding Component Units) was covered by collateral with a fair value of $5,338,116. The collateral is held in the City's name by the Federal Home Loan Bank of Dallas, an agent of the City's financial institution. (Category 2 – Collateralized with securities held by the pledging financial institution's agent in the City's name.)

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

The City's investments carried at fair value as of September 30, 2004 are:

	Category of Risk	Fair Value
Investments		
Treasury Notes	(1)	$123,191
Federal Farm Credit Bank	(1)	2,467
Federal Home Loan Bank, Notes and Discount Notes	(1)	20,582
Federal National Mortgage Assoc., Notes and Discount Notes	(1)	32,887
Federal Home Loan Mortgage Assoc., Notes and Discount Notes	(1)	23,764
State and Local Government Securities	(1)	3,731
		206,622
Mutual Funds, Investment Pools and Other		
TEXPOOL	N/A	14,032
Fidelity	N/A	3,590
Deferred Compensation Investments	N/A	229
Trust Fund Investments	N/A	85,687
		103,538
Total Investments		$310,160

Component Units

	Category of Risk	Fair Value
Investments		
Treasury STRIPS	(1)	$ 5,905
Deposits		
Certificates of Deposit	(1)	3,112
Demand Deposits	(1)	1,543
Mutual Funds, Investment Pools and Other		
U.S. Treasury Portfolio II	N/A	736
Total Investments and Deposits		$11,296

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

Investments of the City, other than for 2a7-like pools, are valued-based upon quotes obtained from Interactive Data Corporation (IDC). Investments in 2a7-like pools, are valued-based upon the value of pool shares. No investments are reported at amortized cost. The City currently invests in one 2a7-like pool, the Texas Local Government Investment Pool (Texpool), which was created under the Interlocal Cooperation Act, Texas Government Code Ann. Ch. 791 and the Texas Government Code Ann. Ch. 2256. The Texas Treasury Safekeeping Trust Company (the Trust) is trustee of Texpool and is a limited purpose trust company authorized pursuant to Texas Government Code Ann. Section 404.103 for which the Texas State Comptroller is the sole officer, director and shareholder. The advisory board of Texpool is composed of members appointed pursuant to the requirements of the Public Funds Investment Act, Texas Government Code Ann. Ch. 2256. The City's investment in Texpool and short-term investments (treasury money market funds) are not categorized because they are not evidenced by securities that exist in physical or book entry form.

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

	Primary Government	Component Units	Reporting Entity	Fiduciary Funds
Cash on Hand	$ 73	$ -	$ 73	$ -
Carrying Amount of Deposits	(12,830)	4,655	(8,175)	7,694
Carrying Amount of Investments	224,171	6,641	230,812	85,916
	$211,414	$11,296	$222,710	$93,610
Cash and Cash Equivalents	$160,150	$ 3,979	$164,129	$ 7,694
Investments	4,385	7,317	48,207	85,916
Investments-Restricted	46,879	-	14,009	-
	$211,414	$11,296	$226,345	$93,610

2. PROPERTY TAXES

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

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2003, upon which the original FY04 levy was based, was $15,018,725,000.

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

For the fiscal year ended September 30, 2004, the City had a tax rate of $0.6480 ($0.4023 for general government and $0.2457 for debt service) per $100 assessed valuation with a tax margin of $1.8520 per $100 valuation based upon a maximum ad valorem tax of $2.50 per $100 valuation permitted by Article XI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately $278,146,787 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately $15,018,725,000.

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

3. RECEIVABLES

Receivables at September 30, 2004 for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

(Amounts expressed in thousands)

	General	Debt Service	Streets Capital Projects	Water & Sewer	Sanitary Landfill	Nonmajor & Other Funds	Total
Receivables:							
Taxes	$ 8,453	$ -	$ -	$ -	$ -	$2,986	$11,439
Trade Accounts	6,227	-	-	7,766	-	-	13,993
Unbilled Trade Accounts	-	-	-	5,463	-	-	5,463
Special Assessments	-	-	508	-	-	-	508
Sales Taxes	7,260	-	-	-	-	-	7,260
Accrued Interest	722	-	-	-	-	-	722
Other	1,762	-	3	134	501	1,719	4,119
Gross Receivables	24,424	-	511	13,363	501	4,705	43,504
Less: Allowance for Uncollectibles	(4,850)	-	-	(1,803)	-	(26)	(6,679)
Net total receivables	$19,574	$ -	$511	$11,560	$501	$4,679	$36,825

4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 69,739	$ 2,092	$ -	$ 71,831
Construction in progress	114,887	26,851	(38,807)	102,931
Total capital assets, not being depreciated	184,626	28,943	(38,807)	174,762
Capital assets, being depreciated:				
Buildings	88,338	14,641	(432)	102,547
Improvements other than buildings	55,584	-	-	55,584
Equipment	40,867	2,133	(457)	42,543
Infrastructure	702,702	22,147	-	724,849
Total capital assets, being depreciated	887,491	38,921	(889)	925,523
Less accumulated depreciation for:				
Buildings	23,801	3,731	(173)	27,359
Improvements other than buildings	18,936	-	-	18,936
Equipment	24,513	4,603	(2,000)	27,116
Infrastructure	386,990	28,233	-	415,223
Total accumulated depreciation	454,240	36,567	(2,173)	488,634
Total capital assets, being depreciated, net	433,251	2,354	1,284	436,889
Governmental activities capital assets, net	$617,877	$31,297	($37,523)	$611,651

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Total Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 9,474	$ 1,899	$ (423)	$ 10,950
Construction in progress	72,902	21,985	(12,577)	82,310
Total capital assets, not being depreciated	82,376	23,884	(13,000)	93,260
Capital assets, being depreciated:				
Buildings and improvements	16,435	781	-	17,216
Water and sewer system	447,213	18,713	-	465,926
Machinery and equipment	13,658	26	(715)	12,969
Total capital assets, being depreciated	477,306	19,520	(715)	496,111
Less accumulated depreciation for:				
Buildings and improvements	12,997	778	-	13,775
Water and sewer system	132,464	9,025	-	141,489
Machinery and equipment	12,027	398	(715)	11,710
Total accumulated depreciation	157,488	10,201	(715)	166,974
Total capital assets, being depreciated, net	319,818	9,319	-	329,137
Business-type activities capital assets, net	$402,194	$33,203	($13,000)	$422,397

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

Governmental activities:	
General Government	$ 2,396
Public Safety	533
Parks and recreation	2,329
Public works	28,482
Public health	25
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	2,802
Total depreciation expense – governmental activities	$36,567
Business-type activities:	
Water and sewer	$ 9,313
Sanitary landfill	888
Total depreciation expense – business-type activities	$10,201

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

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

Discretely presented component units:

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Sports Facilities Development Authority, Inc.:				
Capital assets, being depreciated:				
Buildings and improvements	$2,739	$ -	$ -	$2,739
Total capital assets, being depreciated	2,739	-	-	2,739
Less accumulated depreciation for:				
Buildings and improvements	1,041	109	-	1,150
Total accumulated depreciation	1,041	109	-	1,150
Total capital assets, being depreciated, net	1,698	(109)	-	1,589
Arlington Sports Facility Development Authority, Inc. activities capital assets, net	$1,698	($109)	$ -	$1,589

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Housing Authority, Inc.:				
Capital assets, not being depreciated:				
Machinery and equipment	$ 761	$ -	$ -	$761
Total capital assets, not being depreciated	761	-	-	761
Less accumulated depreciation for:				
Machinery and equipment	269	29	-	298
Total accumulated depreciation	269	29	-	298
Total capital assets, being depreciated, net	492	(29)	-	463
Arlington Housing Authority, Inc. activities capital assets, net	$ 492	($29)	$ -	$463

	Balance at Beginning Of Year	Transfers And Additions	Transfers And Retirements	Balance at End Of Year
Arlington Convention and Visitors Bureau, Inc.:				
Capital assets, not being depreciated:				
Machinery and equipment	$378	$ -	($11)	$367
Total capital assets, not being depreciated	378	-	(11)	367
Less accumulated depreciation for:				
Machinery and equipment	262	40	(90)	212
Total accumulated depreciation	262	40	(90)	212
Total capital assets, being depreciated, net	116	(40)	79	155
Arlington Convention and Visitors Bureau, Inc. activities capital assets, net	$116	($40)	$79	$155

5. PENSION AND EMPLOYEE BENEFIT PLANS

Texas Municipal Retirement System

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of over 794 administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing TMRS, P.O. Box 149153, Austin, Texas, 78714 or by calling 512-476-7577.

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

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

Plan provisions for the City were as follows (as of 4/1/04):

Deposit Rate:	7%
Matching Ratio: (City to Employee)	2 to 1
A member is vested after:	5 years

Under the state law governing TMRS, the actuary annually determines the City contribution rate. 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 the 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/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) 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 2004, the City's annual pension cost of $13,955,035 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included an 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
9/30/02	$14,098,512	100.00%	-
9/30/03	$14,117,102	100.00%	-
9/30/04	$13,955,035	100.00%	-

Thrift Savings Plan

All full-time City employees may participate in the Thrift Savings Plan (the "Thrift"), a single-employer defined contribution plan administered by the Retirement Committee at the City. The plan provisions and contribution requirements are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401(k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of participation with full vesting taking place after six years of participation. At September 30, 2004, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $84,304,000.

The City's total payroll during fiscal 2004 was $117,209,000. The current year contribution was calculated based on a covered payroll of $82,020,000, resulting in a required and actual employer contribution of $1,870,000 and actual employee contributions of $4,512,000. 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 2004. 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 3.3 percent. The City's required contribution rate was determined as part of the July 1, 2004, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities. For 2004, 2003, 2002, 2001, 2000, and 1999 the City contributed 100 percent of the annual pension cost totaling approximately $75,000, $0, $0, $0, $75,000, and $69,000 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 of service.

IRC 457 Deferred Compensation Plans

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

Disability Income Plan

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (the "DIP"), a single-employer disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund. As of July 1, 2004, the date of the latest actuarial valuation, the DIP had benefit liabilities to disabled participants of $2,960,000. The market value of DIP assets at July 1, 2004, was $286,000. The resulting unfunded DIP liability of $2,674,000 will be funded by employer contributions over 30 years. The DIP does not issue separate stand-alone financial statements.

City contributions for the above plans for the year ended September 30, 2004, are as follows (amounts in thousands):

TMRS	$13,955
THRIFT	1,870
PTDIT	75
DIP	309
	$16,209

Statement of Net Assets and Statement of Changes in Net Assets

The Part-Time Deferred Income Trust, Thrift Savings and Disability Income Plans do not issue separate GAAP financial reports. Their financial statements are presented below:"

	Statement of Net Assets			
	Part-Time Deferred Income Trust	Thrift Savings Plan	Disability Income Plan	Total
ASSETS				
Investments	$1,095	$84,304	$288	$85,687
Total Assets	$1,095	$84,304	$288	$85,687
NET ASSETS, Held in Trust For Pension Benefits	$1,095	$84,304	$288	$85,687

	Statement of Changes in Net Assets			
	Part-Time Deferred Income Trust	Thrift Savings Plan	Disability Income Plan	Total
ADDITIONS				
Employer contributions	$ 75	$ 1,870	$309	$ 2,254
Employee contributions	98	4,512	-	4,610
Net appreciation in fair value of investments	59	5,951	15	6,025
Total Additions	$ 232	$12,333	$324	$12,889
DEDUCTIONS				
Benefits	51	6,641	315	7,007
Plan administration	32	3	6	41
Total Deductions	83	6,644	321	7,048
Increase in Net Assets	149	5,689	3	5,841
NET ASSETS, October 1	946	78,615	285	79,846
NET ASSETS, September 30	$1,095	$84,304	$288	$85,687

Other Post Employment Benefits

The City provides postretirement health care benefits to eligible employees who retire from the City with at least 10 years of service with the City of Arlington. Currently, 484 retirees meet those eligibility requirements. Retirees may select an HMO or PPO plan. The City plan coordinates with Medicare and other primary plans for retirees and/or their dependents. Expenditures for postretirement health care benefits are recognized as retirees report claims. During the year, expenditures of $2,778,099 were recognized for postretirement health care.

6. LONG-TERM DEBT

General Long-Term Debt

In July, 2004, the City issued $24,155,000 of Permanent Improvement Bonds, Series 2004 for the purpose of making various capital improvements and paying the cost of issue related to the bond sale. The bonds will mature on August 15th of each year over a period from 2005 to 2024. Interest is payable February 15 and August 15 of each year commencing February 15, 2005. Total interest requirements for these bonds, at rates ranging from 4.0 percent to 4.625 percent aggregate of $11,093,802.

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received $2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state began withholding $18,568 monthly from the City's sales tax allocations beginning in March 2003. As of September 30, 2004, this liability is reported at $1,230,340 in the governmental activities and $607,915 in the component units of the statement of net assets. Beginning in 2003, as sales tax allocations were reduced monthly, the City recorded an expense at the fund level to reduce the liability and record sales tax revenue for the amount of the monthly sales tax allocation withheld by the Comptroller's office. The City also recorded a fund liability to the extent that sales tax revenues are recognized and accrued at year-end.

General long-term debt balances and transactions for the year ended September 30, 2004, are as follows (amounts in thousands):

	Balance, October 1, 2003	Additions	Retirements and Other	Balance, September 30, 2004	Due Within One Year
General obligation debt [1]	$297,820	$24,155	($28,270)	$293,705	$28,030
Premium on bonds	2,607	-	(171)	2,436	-
Deferred loss on refunding	(918)	-	77	(841)	-
Accrued compensated absences	21,338	1,718	(1,298)	21,758	1,469
Capital lease obligation	928	301	(465)	764	473
Arbitrage rebate	320	-	(282)	38	-
Claims payable	12,783	6,879	(8,613)	11,049	5,397
Sales tax payable	1,379	-	(149)	1,230	149
Total	$336,257	$33,053	($39,171)	$330,139	$35,518

(1) The general obligation debt of $293,705 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 2024, and interest is payable semiannually at rates ranging from 2.35 percent to 7.375 percent.

The principal and interest requirements of the above general obligation debt at September 30, 2004 are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2005	$ 28,030	$ 14,136	$ 42,166
2006	25,455	12,980	38,435
2007	23,220	11,837	35,057
2008	22,205	10,753	32,958
2009	20,320	9,650	29,970
2010-2014	91,010	34,004	125,014
2015-2019	63,700	13,688	77,388
2020-2024	19,765	2,180	21,945
	$293,705	$109,228	$402,933

General obligation debt authorized and unissued as of September 30, 2004, amounted to $102,645,000.

Debt of the Enterprise Funds

The City issued $15,000,000 of Water and Wastewater System Revenue Bonds, Series 2004 during 2004 at an effective interest rate of 3.78 percent and will mature on June 1st of each year over a period from 2005 to 2023. Interest is payable June 1 and December 1 of each year commencing on December 1, 2004. Total interest requirements for these bonds, at rates ranging from 2.375 percent to 4.30 percent, aggregate $5,804,349. The bond proceeds were used to improve and extend the 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 2023, and interest is payable semiannually at rates ranging from 2.0 percent to 6.0 percent. Debt balances and transactions for the year ended September 30, 2004, are as follows (amounts in thousands):

	Balance, October 1, 2003	Additions	Retirements and Other	Balance, September 30, 2004	Due Within One Year
Waterworks and Sewer System-					
Revenue bonds	$83,650	$15,000	($10,715)	$87,935	$10,129
Deferred loss on refunding	(668)	-	42	(626)	-
Compensated Absences	1,788	125	(66)	1,847	88
Landfill Closure Liability	7,631	-	(3,661)	3,970	-
Total	$92,401	$15,125	($14,400)	$93,126	$10,217

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

The principal and interest requirements at September 30, 2004, for the enterprise fund debt for the next five years and thereafter, are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Waterworks and Sewer System Revenue Bonds
2005	$10,145	$ 3,916	$ 14,061
2006	9,385	3,382	12,767
2007	8,615	2,979	11,594
2008	6,135	2,616	8,751
2009	6,095	2,369	8,464
2010-2014	25,290	8,262	33,552
2015-2019	16,475	3,463	19,938
2020-2023	5,795	506	6,301
	$87,935	$27,493	$115,428

Long-Term Debt of the Discretely Presented Component Units

As part of the Incremental Funding, as defined in the Agreement, on February 2, 1993, the ASFDA 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 ASFDA, secured by a subordinated junior lien on the one-dollar ticket surcharge of up to $2,000,000 annually. The Bonds are due on December 31, 2008, and are callable at any time at the option of the ASFDA. As of September 30, 2004, $17,179,900 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Texas Rangers sports facility.

7. PRIOR YEAR BOND REFUNDINGS

In prior years, the City legally defeased certain general obligation, revenue, and other bonds by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's report. As of September 30, 2004, previously defeased debt still outstanding amounted to $43,545,000.

8. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2004 is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	$1,445	$ -
Nonmajor Funds	-	1,445
	$1,445	$1,445

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2005.

Transfers between funds during the year were as follows (amounts in thousands):

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	$ 4,295	$ 9,557
Debt Service Fund	-	3,675
Street Capital Projects Fund	1,098	-
Total Major Governmental Funds	5,393	13,232
Major Proprietary Funds:		
Water and Sewer Fund	2,924	-
Sanitary Landfill Fund	4,314	-
Total Major Proprietary Funds	7,238	-
Nonmajor Funds:	12,118	11,517
Total All Funds	$24,749	$24,749

The combined Water and Sewer, Convention and Event Services, Arlington Property Finance Authority, and Sanitary Landfill Funds transferred $4,392,000 to the General Fund to cover their budgeted indirect costs.

The Sanitary Landfill Fund made a one time transfer of $3,100,000 to General Fund.

The General Fund transferred $4,116,000 to Street Maintenance Fund, Special Transportation (Handitran), and other special revenue funds to cover budgeted operating expenses.

The Debt Service Fund received budgeted transfers of $3,675,000 from the Water and Sewer, Convention and Event Services, Sanitary Landfill and Park Performance Funds to cover debt service repayments.

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

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

State and federal laws and regulations require the City to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In 2004 the City received a permit for vertical expansion which increased the capacity and the life of the landfill. The $3,970,000 reported as a landfill closure and post-closure accrued liability at September 30, 2004, represents the cumulative amount reported to date based on the use of approximately 48 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 $3,664,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2004. The City expects to close the landfill in 2034. Actual costs may change due to inflation, changes in technology, or changes in regulations.

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

10. COMMITMENTS AND CONTINGENCIES

Trinity River Authority

The City entered into a 50 year contract dated October 10, 1973, with the Trinity River Authority (TRA) whereby the TRA agrees to provide supplemental sewage treatment for consideration. Payments by the City are based on metered usage, at rates designed to charge the City a pro rata share of the TRA's annual operating and maintenance expenses, and principal and interest requirements on bonds issued by the TRA.

Grant Audits

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

Construction Commitments

The City has various active construction projects as of September 30, 2004. The projects include street construction, park construction, and the construction of water and sewer facilities. At year-end the City's commitments with contractors are as follows (amounts in thousands):

Project	Spend-to-Date	Remaining Commitment
Street Construction	$ 37,565	$8,174
Park Construction	21,208	2,577
Police Construction	12,870	29
Traffic Construction	7,814	194
Water and Sewer Construction	82,310	10,411
	$161,767	$21,385

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

Litigation

The City is no longer involved in the class action lawsuit challenging the validity of the street maintenance fee. In February 2004, the Texas Supreme Court denied review of the Court of Appeals decision. The trial court had found the street maintenance fee was an illegal tax. The Court of Appeals dismissed the case against the City, because the plaintiff did not have standing to challenge the fee. The City subsequently repealed the street maintenance fee after voters approved a street maintenance sales tax.

The City is currently involved in an employment lawsuit in which the plaintiff alleges that his termination violated the Family Medical Leave Act. The City is vigorously contesting this case, which was tried by jury in April 2004. Judgment in the amount of $1.1 million was rendered against the City. The case has been appealed. The range of exposure to the City in the event the jury verdict is affirmed on appeal is $1.1 to $1.5 million. The probability of an unfavorable outcome cannot be determined at this time and an accrual has been recorded.

A suit has been filed contesting the ad valorem tax exempt status afforded the Rangers and Cowboys sports facilities. Plaintiff sought an injunction and the return of tax dollars to the school district. On December 9, 2004 the court granted the plea to the jurisdiction dismissing all claims as to all defendants because of Plaintiff's lack of standing. Plaintiff is still within the time to file an appeal, but an outcome adverse to the City is remote. Accordingly, no accrual has been made.

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

11. RISK MANAGEMENT

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

Arlington Property Finance Authority (APFA)

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

In 1986, APFA issued $9,000,000 of notes payable and the City transferred $1,000,000 from the General Fund in order to initially fund the Program. 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 January 12, 1999, the City issued $7,000,000 of Certificates of Obligation, Series 1999 which will adequately capitalize the Fund through fiscal year 2006, based on a recent actuarial study of the program. The $7,000,000 will be repaid from ad valorem taxes. Under the Program Ordinance, the annual surplus on deposit in the APFA Fund may be withdrawn upon order of the City's APFA Claims Board and used for any lawful purpose. The payments out of the APFA Fund for all purposes cannot exceed $1,000,000 per occurrence and $3,000,000 in aggregate in one annual period. Should claims exceed this amount, the excess claims are to be funded by other available City resources.

The APFA claims liabilities are actuarially determined annually to include the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.5 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $2,753,000 at September 30, 2004.

Workers' Compensation

The City's workers' compensation plan provides City employees with workers' compensation insurance through the Workers' Compensation Fund (the "WCF"). Under this program, the WCF provides coverage for up to a maximum of $300,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. No settlements have utilized this commercial insurance coverage for the past three years. All City departments participate in the workers' compensation program. Payments to the WCF from such departments are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.3 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately $5,806,000 at September 30, 2004.

Group Health

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

The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of approximately $2,490,000 at September 30, 2004.

Changes in the balances of claims liabilities during fiscal 2004 and 2003 were as follows (amounts in thousands):

Fiscal 2004	October 1	Claims and Changes in Estimates	Claim Payments	September 30
APFA	$ 1,652	$ 1,501	$ (400)	$ 2,753
Workers' Compensation	4,837	5,008	(4,039)	5,806
Group Health	6,294	12,064	(15,868)	2,490
	$12,783	$19,674	($21,408)	$11,049
Fiscal 2003				
APFA	$ 1,568	$ 351	$ (267)	$ 1,652
Workers' Compensation	3,889	5,267	(4,319)	4,837
Group Health	3,457	20,749	(17,912)	6,294
	$ 8,914	$26,367	($22,498)	$12,783

12. LEASES

A. As Lessee

As lessee, the City is committed under various leases for data processing and office equipment. These leases are considered for accounting purposes to be capital leases. The liability for future capital lease payments totals $764 and is reported as capital lease obligations current liabilities ($473) and capital lease obligations non-current liabilities ($291) in the General Services Fund and the Court Technology Fund.

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

Year ending September 30, 2004	Rental Payments
2005	$487
2006	135
2007	64
2008	64
2009	38
Total minimum future lease payments	788
Less: Amount representing interest	(24)
Present value of net minimum lease payments	$764

The City's investment in equipment under capital lease arrangements as of September 30, 2004 is $1,226,000.

The City is also committed under various leases for data processing, office equipment and machinery. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the fiscal year ended September 30, 2004, amounted to $503.

Future minimum lease payments for these leases are as follows (amounts in thousands):

Year ending September 30	Rental Payments	Governmental Activities	Business-type Activities
2005	$579	$419	$160
2006	333	305	28
2007	80	64	16
2008	2	2	0
	$994	$790	$204

B. As Lessor

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel, commercial and office complex and business park. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, and throughout the remainder of the lease term, annual rental payments shall be the greater of 0.5 percent of gross revenues or an aggregate of $750,000. Total rental payments received in 2004 were approximately $190,000.

13. DISPUTE SETTLEMENT AGREEMENT

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

Year	Amount
2004	$ 800,000
2005	800,000
2006	800,000
2007	800,000
2008	800,000
2009 to 2013	4,700,000
2014 to 2018	5,000,000
2019 to 2023	5,000,000
2024	1,000,000
	19,700,000
Less Discount	8,048,000
	$11,652,000

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

14. CAPITAL LEASE

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

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers has been accounted for as a capital lease in the component unit, ASFDA. Accordingly, a lease receivable has been established representing the future expected lease proceeds and the capital assets have been removed from the accounts of the ASFDA. As of September 30, 2004, the lease receivable balance was $39,055,556, with a corresponding deferred revenue balance.

Minimum future rentals are as follows:

September 30	
2005	$ 2,000,000
2006	2,000,000
2007	2,000,000
2008	2,000,000
2009	2,000,000
2010-2014	10,000,000
2015-2019	10,000,000
2020-2023	9,055,556
Minimum future lease rentals	$39,055,556

15. CONDENSED COMPONENT UNIT INFORMATION

The City includes five component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2004, for all discretely presented component units is as follows (amounts in thousands):

Condensed Statement of Net Assets

	Arlington Sports Facilities Development Authority, Inc. 2004	Housing Authority 2004	Nonmajor Discretely Presented Component Units 2004	Total Discretely Presented Component Units 2004
Current and other assets	$58,530	$4,996	$447	$63,973
Capital assets	1,589	463	155	2,207
Total assets	60,119	5,459	602	66,180
Long-term liabilities outstanding	17,714	-	-	17,714
Other liabilities	39,150	2,467	139	41,756
Total liabilities	56,864	2,467	139	59,470
Net assets:				
Invested in capital assets, net of related debt	-	463	-	463
Restricted	6,552	-	-	6,552
Unrestricted	(3,297)	2,529	463	(305)
Total net assets	$ 3,255	$2,992	$463	$ 6,710

Condensed Statement of Activities

	Arlington Sports Facilities Development Authority, Inc. 2004	Housing Authority 2004	Nonmajor Discretely Presented Component Units 2004	Total Discretely Presented Component Units 2004
Expenses	$2,662	$26,009	$3,090	$31,761
Program Revenues:				
Charges for services	2,589	-	2,741	5,330
Operating grants and contributions	-	26,315	426	26,741
Net Program (Expense) Revenue	(73)	306	77	310
Interest Revenues	215	18	7	240
Other NonTax General Revenues	(40)	195	(1)	154
Change in Net Assets	102	519	83	704
Net Assets, October 1	3,153	2,473	380	6,006
Net Assets, September 30	$3,255	$ 2,992	$ 463	$ 6,710

16. SUSEQUENT EVENTS

On November 2, 2004, a majority of the voters of the City voted in favor of a proposition authorizing the City to provide for the planning, acquisition, establishment, development, construction and financing of the Dallas Cowboys Complex Development Project (the “Project”) within the City and (i) to impose a sales and use tax within the City at a rate of one-half of one percent (0.5%), (ii) to impose a tax at a maximum rate of five percent (5%) on the gross rental receipts from the short-term rental in the City of a motor vehicle, (iii) to impose a tax on the occupancy of a room in a hotel located within the city, at a maximum rate of two percent (2%) of the price paid for such room, (iv) to impose an admissions tax on each ticket sold as admission to an event held at the Project at a maximum rate not to exceed ten percent (10%) of the price of the ticket, and (v) to impose a tax on each parked motor vehicle parking in a parking facility of the Project at a maximum rate not to exceed three dollars ($3.00) per vehicle.

On February 8, 2005, the City Council approved the Cowboys Complex Funding and Closing Agreement (the “Agreement”). The Agreement anticipates the issuance of bonds, notes or other obligations by the City and the Cowboys by September 1, 2005, while reserving the right of either the City or the Cowboys to terminate the Agreement up to July 1, 2005. The City’s contribution to the Project is the lesser of $325 million or fifty percent (50%) of the Project’s cost.

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Percent	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/01	290,670	363,021	72,351	80.1%	110,577	65.4%
12/31/02	316,095	397,483	81,388	79.5%	110,722	73.5%
12/31/03	336,817	433,336	96,519	77.7%	109,451	88.2%

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

The actuarial assumptions used in the July 1, 2004, actuarial valuation included were (a) 6.50 percent investment return, (b) no inflation rate adjustment, and (c) 4.50 percent salary increases. The accrual basis of accounting is utilized by the PDIT fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. The actuarial accrued liability was determined using the entry age normal cost method.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funded Percent	Excess Funded AAL (EAAL)	Annual Covered Payroll	EAAL as a Percentage of Covered Payroll
7/1/02	891,460	834,006	106.9%	57,454	2,415,348	2.4%
7/1/03	928,709	873,745	106.3%	54,863	2,415,348	2.3%
7/1/04	1,038,934	913,685	113.7%	125,249	2,415,348	5.2%

* Valuation results for 7/1/2003 were estimated based on 7/1/2002 and 7/1/2004 valuations.
** An actuarial valuation was not performed as of 7/1/2003

APPENDIX C

[CLOSING DATE]

$17,000,000
CITY OF ARLINGTON, TEXAS
WATER AND WASTEWATER SYSTEM REVENUE BONDS
SERIES 2005

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 BONDS, SERIES 2005, dated March 1, 2005.
>
> 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; 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.

Vinson & Elkins LLP Attorneys at Law Austin Beijing Dallas
Dubai Houston London Moscow New York Tokyo Washington

Trammell Crow Center, 2001 Ross Avenue, Suite 3700
Dallas, Texas 75201-2975 **Tel** 214.220.7700 **Fax** 214.220.7716
www.velaw.com

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; and

(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.

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 2009 through 2010, inclusive and 2016 through 2024, inclusive (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 initial purchasers of the Bonds with respect to matters solely within the knowledge of the Issuer and the initial purchasers, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the 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.

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

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT 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.

926201_1.DOC

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

____
President

Attest:______________________________
Assistant Secretary

DISCLOSURE OF GUARANTY FUND NONPARTICIPATION: In the event the Insurer is unable to fulfill its contractual obligation under this policy or contract or application or certificate or evidence of coverage, the policyholder or certificateholder is not protected by an insurance guaranty fund or other solvency protection arrangement.

STD-TX-7
01/05