NOTICE OF SALE
AND
BIDDING INSTRUCTIONS

ON

$3,500,000
CITY OF LEVELLAND, TEXAS
(Hockley County)
GENERAL OBLIGATION BONDS, SERIES 2004

Sealed Bids Due Tuesday, July 20, 2004, at 2:00 PM, CDT

THE BONDS WILL BE DESIGNATED AS
"QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS.

THE SALE

BONDS OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Levelland, Texas (the "City") is offering for sale its $3,500,000 General Obligation Bonds, Series 2004 (the "Bonds").

ADDRESS OF BIDS . . . Sealed bids, plainly marked "Bid for Bonds", should be addressed to "Mayor and City Council, City of Levelland, Texas", delivered to the City's Financial Advisor, First Southwest Company, 1001 Main Street, Suite 802, Lubbock, Texas 79401, prior to 2:00 PM, CDT, on the date of the bid opening. All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Bidders must submit, prior to Tuesday, July 20, 2004, SIGNED Official Bid Forms to Mr. Vince Viaille, First Southwest Company, 1001 Main Street, Suite 802, Lubbock, Texas 79401. Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in the Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, PARITY, the use of such facilities being the sole risk of the prospective bidder.

If any provisions of the Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support , 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For purposes of both the written sealed bid process and the electronic bidding process, the time as maintained by PARITY shall constitute the official time. For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the City, as described under "Basis of Award" below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the Official Bid Form.

BIDS BY TELEPHONE OR FACSIMILE . . . Bidders must submit SIGNED Official Bid Forms to Mr. Vince Viaille, First Southwest Company, 1001 Main Street, Suite 802, Lubbock, Texas 79401, and submit their bid by telephone or facsimile (fax) on the date of the sale.

Telephone bids will be accepted at (806) 749-3792, between 1:30 PM and 2:00 PM, CDT.

Fax bids must be received between 1:30 PM and 2:00 PM, CDT, on the date of the sale at (806) 749-3793, attention Mr. Vince Viaille.

First Southwest Company will not be responsible for submitting any bids received after the above deadlines.

First Southwest Company assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

PLACE AND TIME OF BID OPENING . . . The bids for the Bonds will be publicly opened and read in the office of the City's Financial Advisor, at 2:00 PM, CDT, Tuesday, July 20, 2004.

AWARD OF THE BONDS . . . The City Council will take action to award the Bonds (or reject all bids) at a meeting scheduled to convene at 7:00 PM, CDT, on the date of the bid opening, and adopt an ordinance authorizing the Bonds and approving the Official Statement (the "Ordinance").

THE BONDS

DESCRIPTION . . . The Bonds will be dated July 15, 2004 (the "Dated Date"). Interest will accrue from the Dated Date and will be due on February 15, 2005, and each August 15 and February 15 thereafter until the earlier of maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity. The Bonds will mature on February 15 in each year as follows:

MATURITY SCHEDULE

Amount	Maturity (February 15)	Amount	Maturity (February 15)	Amount	Maturity (February 15)
$ 80,000	2005	$ 135,000	2012	$ 195,000	2019
100,000	2006	145,000	2013	205,000	2020
105,000	2007	150,000	2014	220,000	2021
110,000	2008	160,000	2015	230,000	2022
115,000	2009	170,000	2016	240,000	2023
125,000	2010	175,000	2017	255,000	2024
130,000	2011	185,000	2018	270,000	2025

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2015, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

SERIAL BONDS AND/OR TERM BONDS . . . Bidders may provide that all of the Bonds be issued as serial bonds or may provide that any two or more consecutive annual principal amounts be combined into one or more term bonds.

MANDATORY SINKING FUND REDEMPTION . . . If the successful bidder elects to alter the Maturity Schedule reflected above and convert the principal amounts of the Serial Bonds into "Term Bonds", such "Term Bonds" shall be subject to mandatory redemption on the first February 15 next following the last maturity for Serial Bonds, and annually thereafter on each February 15 until the stated maturity for the Term Bonds at the redemption price of par plus accrued interest to the date of redemption. The principal amounts of the Term Bonds to be redeemed on each mandatory redemption date shall be the principal amounts that would have been due and payable in the Maturity Schedule shown above had no designation of such maturities as Term Bonds occurred. At least thirty (30) days prior to each mandatory date, the Paying Agent/Registrar shall select by lot the Term Bonds to be redeemed and cause a notice of redemption to be given in the manner provided in the Official Statement.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of the Term Bonds of the same maturity which at least fifty (50) days prior to a mandatory redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"). See "The Bonds - Book-Entry-Only System" in the Official Statement.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be JPMorgan Chase Bank, Dallas, Texas (see "The Bonds - Paying Agent/Registrar" in the Official Statement).

SOURCE OF PAYMENT . . . The Bonds are direct and voted general obligations of the City of Levelland, Texas, payable out of the receipts from an ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City, as provided in the Ordinance.

Further details regarding the Bonds are set forth in the Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . The Bonds will be sold in one block on an "All or None" basis, and at a price of not less than their par value plus accrued interest from date of the Bonds to the date of delivery of the Bonds. Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 2% in rate. Using the interest rate established for the February 15, 2015, maturity as the base year, interest rates for successive maturities shall be structured in ascending order such that for each succeeding maturity, rates shall be equal to or greater than the interest rate for the maturity of the preceding year. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Bonds of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

Basis for Award . . . Subject to the City's right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Bonds will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the "Purchaser") making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. The True Interest Cost rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds plus any premium bid, if any (but not interest accrued from the Dated Date to the date of their delivery). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

Good Faith Deposit . . . A Good Faith Deposit, payable to the "City of Levelland, Texas", in the amount of $70,000, is required. Such Good Faith Deposit shall be a bank cashier's check or certified check, which is to be retained uncashed by the City pending the Purchaser's compliance with the terms of the bid and the Notice of Sale and Bidding Instructions. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the City prior to the opening of the bids, and shall be accompanied by instructions from the bank on which drawn which authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser upon payment for the Bonds.** No interest will be allowed on the Good Faith Deposit. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with the bid, then said check shall be cashed and accepted by the City as full and complete liquidated damages. The checks accompanying bids other than the winning bid will be returned immediately after the bids are opened, and an award of the Bonds has been made.

DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

CUSIP Numbers . . . It is anticipated that CUSIP identification numbers will appear on the Bonds, but neither the failure to print or type such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. All expenses in relation to the printing or typing of CUSIP numbers on the Bonds shall be paid by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Purchaser.

Delivery of Bonds . . . Delivery will be accomplished by the issuance of one Initial Bond (also called the "Bond" or "Bonds"), either in typed or printed form, in the aggregate principal amount of $3,500,000, payable in stated installments to the Purchaser, signed by the Mayor and City Secretary, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts. Upon delivery of the Initial Bond, it shall be immediately cancelled and one definitive Bond for each maturity will be registered and delivered only to Cede & Co., and deposited with DTC in connection with DTC's Book-Entry-Only System. Delivery will be at the principal office of the Paying Agent/Registrar. Payment for the Bonds must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that delivery of the Bond(s) can be made on or about August 24, 2004, and it is understood and agreed that the Purchaser will accept delivery and make payment for the Bonds by 10:00 AM, CDT, on August 24, 2004, or thereafter on the date the Bond is tendered for delivery, up to and including September 7, 2004. If for any reason the City is unable to make delivery on or before September 7, 2004, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Bonds, provided such failure is due to circumstances beyond the City's reasonable control.

Conditions to Delivery . . . The obligation of the Purchaser to take up and pay for the Bonds is subject to the Purchaser's receipt of (a) the legal opinion of Fulbright & Jaworski L.L.P., Dallas, Texas, Bond Counsel for the City ("Bond Counsel"), (b) the no-litigation certificate, and (c) the certification as to the Official Statement, all as further described in the Official Statement.

In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986 relating to the exemption of interest on the Bonds from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (on or before the 6th business day prior to the delivery of the Bonds) a certification as to their "issue price" substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions. In the event the successful bidder will not reoffer the Bonds for sale, such certificate may be modified in a manner approved by the City. **In no event will the City fail to deliver the Bonds as a result of the Initial Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery.** Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate by the date of delivery of the Bonds, if its bid is accepted by the City. It will be the responsibility of the Purchaser to institute such syndicate reporting requirements to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

LEGAL OPINIONS . . . The Bonds are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Bonds is subject to the receipt by the Purchaser of opinions of Bond Counsel, to the effect that the Bonds are valid and binding obligations of the City and that the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "Tax Matters" in the Official Statement, including alternative minimum tax consequences for corporations.

CERTIFICATION OF OFFICIAL STATEMENT . . . At the time of payment for and Initial Delivery of the Bonds, the City will execute and deliver to the Purchaser a certificate in the form set forth in the Official Statement.

CHANGE IN TAX EXEMPT STATUS . . . At any time before the Bonds are tendered for delivery, the Purchaser may withdraw its bid if the interest received by private holders on bonds of the same type and character shall be declared to be includable in gross income under present federal income tax laws, either by ruling of the Internal Revenue Service or by a decision of any Federal court, or shall be declared taxable or be required to be taken into account in computing any federal income taxes, by the terms of any federal income tax law enacted subsequent to the date of this Notice of Sale and Bidding Instructions.

GENERAL

FINANCIAL ADVISOR . . . First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company may submit a bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Bonds in accordance with the securities law of the states in which the Bonds are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Bonds or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated to qualify as a foreign corporation or to execute a general or special consent to suit or service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Bonds, but is merely notice of the sale of the Bonds. The offer to sell the Bonds is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Bonds.

ISSUANCE OF ADDITIONAL DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

RATINGS . . . The Bonds are rated "A-" by Standard & Poor's Ratings Services, A Division of McGraw-Hill Companies, Inc. ("S&P").

MUNICIPAL BOND INSURANCE . . . In the event the Bonds are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the cost therefor **will be paid by the Purchaser.** Any fees to be paid to the rating agencies as a result of said insurance **will be paid by the City.** It will be the responsibility of the Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Bonds.

THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The City has prepared the accompanying Official Statement and, for the limited purpose of complying with SEC Rule 15c2-12, deems such Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Official Statement.

The City will furnish to the Initial Purchaser(s), acting through a designated senior representative, in accordance with instructions received from the Purchaser(s), within seven (7) business days from the sale date an aggregate of 100 copies of the Official Statement reflecting interest rates and other terms relating to the initial reoffering of the Bonds. The cost of any Official Statement in excess of the number specified shall be prepared and distributed at the cost of the Initial Purchaser(s). The Purchaser(s) shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial

Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the subject securities.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

ADDITIONAL COPIES OF NOTICE, BID FORM AND STATEMENT . . . A limited number of additional copies of this Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, as available over and above the normal mailing, may be obtained at the offices of First Southwest Company, Investment Bankers, 325 North St. Paul, Suite 800, Dallas, Texas 75201, Financial Advisor to the City.

On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Bonds, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Bonds by the Purchaser.

HUGH L. BRADLEY
Mayor
City of Levelland, Texas

ATTEST:

CHRIS WADE
City Secretary

July 6, 2004

BOND YEARS

Bonds Maturing	Amount	Bond Years	Accumulated Bond Years	Bonds Maturing
2005	80,000	46.667	46.667	2005
2006	100,000	158.333	205.000	2006
2007	105,000	271.250	476.250	2007
2008	110,000	394.167	870.417	2008
2009	115,000	527.083	1,397.500	2009
2010	125,000	697.917	2,095.417	2010
2011	130,000	855.833	2,951.250	2011
2012	135,000	1,023.750	3,975.000	2012
2013	145,000	1,244.583	5,219.583	2013
2014	150,000	1,437.500	6,657.083	2014
2015	160,000	1,693.333	8,350.417	2015
2016	170,000	1,969.167	10,319.583	2016
2017	175,000	2,202.083	12,521.667	2017
2018	185,000	2,512.917	15,034.583	2018
2019	195,000	2,843.750	17,878.333	2019
2020	205,000	3,194.583	21,072.917	2020
2021	220,000	3,648.333	24,721.250	2021
2022	230,000	4,044.167	28,765.417	2022
2023	240,000	4,460.000	33,225.417	2023
2024	255,000	4,993.750	38,219.167	2024
2025	270,000	5,557.500	43,776.667	2025

Average Maturity . . . . 12.508 Years

OFFICIAL BID FORM

Honorable Mayor and City Council
City of Levelland, Texas

July 20, 2004

Members of the City Council:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated July 6, 2004 of $3,500,000 CITY OF LEVELLAND, TEXAS GENERAL OBLIGATION BONDS, SERIES 2004, both of which constitute a part hereof.

For your legally issued Bonds, as described in said Notice of Sale and Bidding Instructions and Official Statement, we will pay you par and accrued interest from date of issue to date of delivery to us, plus a cash premium of $__________ for Bonds maturing and bearing interest as follows:

Maturity (February 15)	Amount	Interest Rate	Maturity (February 15)	Amount	Interest Rate
2005	$ 80,000	________%	2016	$ 170,000	________%
2006	100,000	________%	2017	175,000	________%
2007	105,000	________%	2018	185,000	________%
2008	110,000	________%	2019	195,000	________%
2009	115,000	________%	2020	205,000	________%
2010	125,000	________%	2021	220,000	________%
2011	130,000	________%	2022	230,000	________%
2012	135,000	________%	2023	240,000	________%
2013	145,000	________%	2024	255,000	________%
2014	150,000	________%	2025	270,000	________%
2015	160,000	________%			

Of the principal maturities set forth in the table above, term bonds have been created as indicated in the following table (which may include multiple term bonds, one term bond or no term bond if none is indicated). For those years which have been combined into a term bond, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term bond maturity date shall mature in such year. The term bonds created are as follows:

Maturity Date	Year of First Mandatory Redemption	Principal Amount	Interest Rate
________	________	$ ________	________%
________	________	$ ________	________%
________	________	$ ________	________%
________	________	$ ________	________%
________	________	$ ________	________%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST ________________%

We are having the Bonds of the following maturities ______________________insured by____________________________ at a premium of $__________________, **said premium to be paid by the Purchaser.** Any fees to be paid to the rating agencies as a result of said insurance **will be paid by the City.**

The Initial Bonds shall be registered in the name of ____, which will, upon payment for the Bonds, be cancelled by the Paying Agent/Registrar. The Bonds will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System.

A bank cashier's check or certified check of the ____________________________ Bank, ____________________, in the amount of $70,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this bid), and is submitted in accordance with the terms as set forth in the Official Statement and Notice of Sale and Bidding Instructions.

We agree to accept delivery of the Bonds utilizing the Book-Entry-Only System through DTC and make payment for the Initial Bond in immediately available funds in the Corporate Trust Division, JPMorgan Chase Bank, Dallas, Texas, not later than 10:00 AM, CDT, on August 24, 2004, or thereafter on the date the Bonds are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

The undersigned agrees to complete, execute, and deliver to the City, at least six business days prior to delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,	Syndicate Members:
______________________________	______________________________
Name of Underwriter or Manager	
______________________________	______________________________
Authorized Representative	
______________________________	______________________________
Phone Number	
______________________________	______________________________
Signature	

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Levelland, Texas, subject to and in accordance with the Notice of Sale and Bidding Instructions, this the 20th day of July, 2004.

____
Mayor
City of Levelland, Texas

ATTEST:

____
City Secretary

ISSUE PRICE CERTIFICATE

The undersigned hereby certifies with respect to the sale of CITY OF LEVELLAND, TEXAS GENERAL OBLIGATION BONDS, SERIES 2004 (the "Bonds"), issued in aggregate principal amount of $3,500,000, as follows:

1. The undersigned is the underwriter or the manager of the syndicate of underwriters which has purchased the Bonds from the City of Levelland, Texas (the "Issuer") at competitive sale.

2. The undersigned and/or one or more other members of the underwriting syndicate, if any, have made a bona fide offering to the public of the Bonds of each maturity at the respective prices set forth below.

3. The initial offering price (expressed as a percentage of principal amount or yield and exclusive of accrued interest) for the Bonds of each maturity at which a substantial amount of the Bonds of such maturity was sold to the public is as set forth below:

Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)	Principal Amount Maturing	Year of Maturity	Offering Price (%/Yield)
$ 80,000	2005	______	$ 170,000	2016	______
100,000	2006	______	175,000	2017	______
105,000	2007	______	185,000	2018	______
110,000	2008	______	195,000	2019	______
115,000	2009	______	205,000	2020	______
125,000	2010	______	220,000	2021	______
130,000	2011	______	230,000	2022	______
135,000	2012	______	240,000	2023	______
145,000	2013	______	255,000	2024	______
150,000	2014	______	270,000	2025	______
160,000	2015	______			

4. The term "public," as used herein, means persons other than bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers.

5. The offering prices described above reflect current market prices at the time of such sales.

6. The undersigned and/or one or more other members of the underwriting syndicate, as the case may be, (have)(have not) purchased bond insurance for the Bonds. The bond insurance, if any, has been purchased from ______________________________ (the "Insurer") for a premium cost of $____________________ (net of any nonguarantee cost, e.g., rating agency fees). The amount of such cost is set forth in the Insurer's commitment and is separately stated from all other fees or charges payable to the Insurer. The premium does not exceed a reasonable charge for the transfer of credit risk taking into account payments charged by guarantors in comparable transactions (including transactions in which a guarantor has no involvement other than as a guarantor). The present value of the debt service savings expected to be realized as a result of such insurance, discounted at a rate equal to the yield on the Bonds which results after recovery of the insurance premium, exceeds the present value of the bond insurance premium.

7. The undersigned understands that the statements made herein will be relied upon by the Issuer in its effort to comply with the conditions imposed by the Internal Revenue Code of 1986, as amended, on the excludability of interest on the Bonds from the gross income of their owners.

EXECUTED and DELIVERED this _________ day of ____________, 2004.

____
(Name of Underwriter or Manager)

By ______________________________

____
(Title)

PRELIMINARY OFFICIAL STATEMENT

Dated July 6, 2004

Ratings:
S&P: "A-"
See ("Other Information - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE BONDS WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$3,500,000
CITY OF LEVELLAND, TEXAS
(Hockley County)
GENERAL OBLIGATION BONDS, SERIES 2004

Dated Date: July 15, 2004 **Due: February 15, as shown below**

PAYMENT TERMS . . . Interest on the $3,500,000 City of Levelland, Texas, General Obligation Bonds, Series 2004 (the "Bonds") will accrue from July 15, 2004, (the "Dated Date") and will be payable February 15 and August 15 of each year commencing February 15, 2005, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is JPMorgan Chase Bank, Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Vernon's Texas Codes Annotated ("V.T.C.A."), Government Code, Chapter 1331, as amended, and are direct obligations of the City of Levelland, Texas (the "City"), payable from an annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Ordinance") (see "The Bonds - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for permanent public improvements and public purposes, to wit: (1) street improvements including curbs, gutters, sidewalks, drainage and utility line improvements incidental thereto and the acquisition of land and rights-of-way therefor, (2) storm water drainage improvements, including the acquisition of land and rights-of-way therefor, (3) permitting, excavation and lining of a cell for a landfill and the acquisition of land therefor, and (4) the costs of professional services incurred in connection therewith.

CUSIP PREFIX: 527300
SEE MATURITY SCHEDULE, 9 Digit CUSIP AND REDEMPTION PROVISIONS ON THE REVERSE OF THIS PAGE

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchaser(s) and subject to the approving opinion of the Attorney General of Texas and the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on August 24, 2004.

BIDS DUE TUESDAY, JULY 20, 2004, AT 2:00 PM, CDT

MATURITY SCHEDULE **CUSIP Prefix: 527300** [1]

Principal Amount	Maturity (February 15)	Interest Rate	Price or Yield	CUSIP Suffix [1]	Principal Amount	Maturity (February 15)	Interest Rate	Price or Yield	CUSIP Suffix [1]
$ 80,000	2005			EF 0	$ 170,000	2016			ES 2
100,000	2006			EG 8	175,000	2017			ET 0
105,000	2007			EH 6	185,000	2018			EU 7
110,000	2008			EJ 2	195,000	2019			EV 5
115,000	2009			EK 9	205,000	2020			EW 3
125,000	2010			EL 7	220,000	2021			EX 1
130,000	2011			EM 5	230,000	2022			EY 9
135,000	2012			EN 3	240,000	2023			EZ 6
145,000	2013			EP 8	255,000	2024			FA 0
150,000	2014			EQ 6	270,000	2025			FB 8
160,000	2015			ER 4					

(Accrued Interest from July 15, 2004 to be added)

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

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2015, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

For purpose of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or corrected from time to time, may be treated as an Official Statement with respect to the Bonds described herein "deemed final" by the City as of the date hereof (or of any supplement or correction) except for the omission of no more than the information provided by Subsection (b)(1) of Rule 15c2-12.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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APPENDICES

The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE CITY .... The City of Levelland is a political subdivision and municipal corporation of the State, located in Hockley County, Texas. The City covers approximately 10 square miles (see "Introduction - Description of City").

THE BONDS .... The Bonds are issued as $3,500,000 General Obligation Bonds, Series 2004. The Bonds are issued as serial bonds maturing February 15, 2005 through February 15, 2025 (see "The Bonds - Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from July 15, 2004, and is payable February 15, 2005, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds" and "The Bonds - Optional Redemption").

AUTHORITY FOR ISSUANCE.......... The Bonds are issued pursuant to the general laws of the State, including particularly V.T.C.A., Government Code, Chapter 1331, as amended, and an Ordinance passed by the City Council of the City (see "The Bonds - Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds constitute direct and voted obligations of the City, payable from the levy and collection of an annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the City (see "The Bonds - Security and Source of Payment").

QUALIFIED TAX-EXEMPT OBLIGATIONS.............................. The City will designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").

REDEMPTION .... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2015, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

TAX EXEMPTION.......................... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters" herein, including the alternative minimum tax on corporations.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used for permanent public improvements and public purposes, to wit: (1) street improvements including curbs, gutters, sidewalks, drainage and utility line improvements incidental thereto and the acquisition of land and rights-of-way therefor, (2) storm water drainage improvements, including the acquisition of land and rights-of-way therefor, (3) permitting, excavation and lining of a cell for a landfill and the acquisition of land therefor, and (4) the costs of professional services incurred in connection therewith.

RATINGS .... The Bonds are rated "A-" by Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc. ("S&P") (see "Other Information - Ratings").

BOOK-ENTRY-ONLY SYSTEM .... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "The Bonds - Book-Entry-Only System") .

PAYMENT RECORD .... The City has not defaulted in payment of its general obligation tax debt since 1936 when all bonds were refunded at par with a reduction in interest rate.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population[1]	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt	Per Capita Funded G.O. Tax Debt	Ratio G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
1999	12,850	$ 287,916,997	$ 22,406	$ 1,425,000	$ 111	0.49%	99.14%
2000	12,866	281,708,570	21,896	1,165,000	91	0.41%	99.73%
2001	12,866	293,442,212	22,808	890,000	69	0.30%	101.20%
2002	12,866	296,158,003	23,019	605,000	47	0.20%	99.59%
2003	12,866	293,444,987	22,808	310,000	24	0.11%	98.73%
2004	12,866	294,130,868	22,861	3,500,000 [2]	272 [2]	1.19% [2]	97.83% [3]

(1) Source: 1999 population estimated by City; 2000-2004, 2000 U.S. Census.
(2) Projected, includes the Bonds.
(3) Partial collections through May 31, 2004.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2003	2002	2001	2000	1999
Fund balances/equity, October 1	$ 2,114,380	$ 2,217,041	$ 1,950,434	$ 1,853,967	$ 1,750,491
Total Revenues	4,046,464	3,963,693	3,849,645	3,699,552	4,909,689
Total Expenditures	4,064,456	4,276,354	3,779,285	3,791,801	5,074,602
Net Transfers & Other Sources & Uses	190,000	210,000	195,331	212,500	209,500
Increase (decrease) in fund balance	-	-	916	(23,784)	58,889
Net Funds Available	172,008	(102,661)	266,607	96,467	103,476
Fund balances/equity, September 30	$ 2,286,388	$ 2,114,380	$ 2,217,041	$ 1,950,434	$ 1,853,967

For additional information regarding the City, please contact:

Mr. Richard Osburn
City Manager
City of Levelland
P.O. Box 1010
Levelland, Texas 79336
Phone: (806) 894-0113
Fax: (806) 894-0119

or

Mr. Vince Viaille
First Southwest Company
1001 Main Street
Suite 802
Lubbock, Texas 79401
Phone: (806) 749-3792
Fax: (806) 749-3793

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Hugh L. Bradley Mayor	5 Years	May, 2006	Insurance Agent
Jody D. Rose Councilmember	1 Month	May, 2006	Business Owner
Mike Jackson Councilmember	1 Year	May, 2005	Phlebotomist
Donnie Thoms Councilmember	14 Years	May, 2006	Retired
Ken Williams Councilmember	2 Years	May, 2005	Vice President G&C Contracting

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to City	Total Government Service
Richard (Rick) Osburn, AICP	City Manager	23 Years	25 Years
Chris Wade, TRMC	City Secretary	30 Years	30 Years
Sarianne Beversdorf, CPA, CGFOA	Finance Director	4 Years	17 Years
Richard Husen	City Attorney	19 Years	19 Years

CONSULTANTS AND ADVISORS

Auditors .... Pate, Downs & Waide P.C.
Certified Public Accountants
Levelland, Texas

Bond Counsel .... Fulbright & Jaworski L.L.P.
Dallas, Texas

Financial Advisor .... First Southwest Company
Lubbock and Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$3,500,000
CITY OF LEVELLAND, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2004

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $3,500,000 City of Levelland, Texas, General Obligation Bonds, Series 2004. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1926, and first adopted its Home Rule Charter in1948. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and four Councilmembers. The Mayor serves a three year term of office. The Councilmembers serve a two year term of office in the four election districts. Two Councilmembers' terms expire in even-numbered years and the other two Councilmembers' terms expire in odd-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 12,866. The City covers approximately 10 square miles.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated July 15, 2004, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2005. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly V.T.C.A., Government Code, Chapter 1331, as amended; an election held May 15, 2004, and passed by a majority of the participating voters; and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all Bonds.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City limits its tax rate to $2.00 per $100 Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2015, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2014, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (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 a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money together with moneys deposited therewith, if any, to make such payment. The Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations payable from ad valorem taxes levied by the City, but will be payable only from the funds and Defeasance Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue tax supported obligations or for any other purpose.

AMENDMENTS. . . The City may amend the Ordinance without the consent of or notice to any registered owner in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holder of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without consent of the registered owners of all of the Bonds then outstanding, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment or of interest or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage amount of the Bonds necessary to be held by registered owners for consent to such amendment.

BOOK-ENTRY-ONLY SYSTEM *. . . This section describes how ownership of the Bonds are to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, 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, and 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 Security ("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 Security 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 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 the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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 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 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, Security certificates are required to be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City or the Purchasers.

Effect of Termination of Book-Entry-Only System In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Bonds - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is JPMorgan Chase Bank, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or 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/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the registered owners of the Bonds and the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "The Bonds - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES . . . The Ordinance does not establish specific events of default with respect to the Bonds. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

USE OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds are expected to be expended as follows:

	Bonds
Street Improvements	$ 2,400,000
Storm Water Drainage Improvements	880,000
Landfill Improvements	220,000
Total	$ 3,500,000 (1)

(1) Includes costs of issuance.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Hockley County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the V.T.C.A., Property Tax Code (the "Property Tax Code"), for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is $5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000.

As of January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements and such freeze is transferable to a different residence homestead and to the surviving spouse living in such homestead who is disabled or is at least 55 years of age. Once established such freeze cannot be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

The City may create one or more tax increment financing districts ("TIFD") within the City and freeze the taxable values of property in the TIFD at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIFD may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIFD in excess of the “frozen values” to pay or finance the costs of certain public improvements in the TIFD. Taxes levied by the City against the values of real property in the TIFD in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIFD. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the current year. The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or 103 per cent of the effective tax rate until a public hearing is held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

City Application of Tax Code . . . The City does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older or the disabled.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the Hockley County Tax Assessor collects taxes for the City.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

The City does not permit split payments, and discounts are not allowed.

The City does tax freeport property.

The City does collect the additional one-eighth cent sales tax for reduction of ad valorem taxes.

Tax Abatement Policy . . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Generally, projects are eligible for a tax abatement of up to 100% for a period of five to ten years.

Table 1 - Valuation, Exemptions and General Obligation Debt

2003/2004 Market Valuation Established by Hockley County Appraisal District (excluding totally exempt property)		$ 297,720,677
Less Exemptions/Reductions at 100% Market Value:		
Disabled Veterans Exemptions	$ 825,096	
Agricultural Land Use Reduction	2,576,630	
Homestead Cap Adjustment	188,083	3,589,809
2003/2004 Taxable Assessed Valuation		$ 294,130,868
City Funded Debt Payable from Ad Valorem Taxes (as of 5-31-04)	$ 310,000	
The Bonds	3,500,000	
General Obligation Debt Payable from Ad Valorem Taxes		$ 3,810,000
General Obligation Interest and Sinking Fund as of 5-31-04		$ 812,515
Ratio General Obligation Tax Debt to Taxable Assessed Valuation		1.30%

2004 Estimated Population - 12,866

Per Capita Taxable Assessed Valuation - $22,861

Per Capita Total Funded Debt $296

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2004		2003		2002	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	$ 187,079,988	62.84%	$ 185,001,141	62.29%	$ 181,707,112	60.64%
Real, Residential Multi-Family	4,616,320	1.55%	4,556,310	1.53%	4,553,490	1.52%
Real, Vacant Lots/Tracts	2,546,883	0.86%	2,623,588	0.88%	2,713,653	0.91%
Acreage	2,908,890	0.98%	2,927,180	0.99%	2,960,320	0.99%
Farm/Ranch Improvements	109,610	0.04%	109,610	0.04%	114,640	0.04%
Real, Commercial and Industrial	38,511,571	12.94%	38,314,652	12.90%	37,362,762	12.47%
Real, Minerals Oil and Gas	16,468,135	5.53%	17,138,370	5.77%	20,154,306	6.73%
Real and Tangible Personal, Utilities	11,432,240	3.84%	11,901,320	4.01%	11,867,020	3.96%
Tangible Personal, Business	30,762,610	10.33%	31,016,320	10.44%	34,856,500	11.63%
Tangible Personal, Mobile Homes	1,671,200	0.56%	1,833,660	0.62%	1,672,280	0.56%
Real, Inventory	289,370	0.10%	306,993	0.10%	324,360	0.11%
Special Inventory	1,323,860	0.44%	1,266,550	0.43%	1,382,420	0.46%
Total Appraised Value Before Exemptions	$ 297,720,677	100.00%	$ 296,995,694	100.00%	$ 299,668,863	100.00%
Less: Total Exemptions/Reductions	(3,589,809)		(3,550,707)		(3,510,860)	
Taxable Assessed Value	$ 294,130,868		$ 293,444,987		$ 296,158,003	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2001		2000	
Category	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	$ 180,857,662	60.85%	$ 172,461,150	60.47%
Real, Residential Multi-Family	4,484,060	1.51%	4,348,330	1.52%
Real, Vacant Lots/Tracts	3,051,053	1.03%	2,681,430	0.94%
Acreage	2,973,910	1.00%	3,143,320	1.10%
Farm/Ranch Improvements	108,800	0.04%	104,540	0.04%
Real, Commercial and Industrial	38,552,682	12.97%	38,801,010	13.60%
Real, Minerals Oil and Gas	13,490,501	4.54%	10,845,530	3.80%
Real and Tangible Personal, Utilities	12,174,600	4.10%	12,790,690	4.48%
Tangible Personal, Business	38,352,800	12.90%	37,720,150	13.23%
Tangible Personal, Mobile Homes	1,669,540	0.56%	1,817,590	0.64%
Real, Inventory	344,380	0.12%	126,450	0.04%
Special, Inventory	1,158,770	0.39%	370,920	0.13%
Total Appraised Value Before Exemptions	$ 297,218,758	100.00%	$ 285,211,110	100.00%
Less: Total Exemptions/Reductions	(3,776,546)		(3,502,540)	
Taxable Assessed Value	$ 293,442,212		$ 281,708,570	

NOTE: Valuations shown are certified taxable assessed values reported by the Hockley County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population[(1)]	Taxable Assessed Valuation[(2)]	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
1999	12850	$ 287,916,997	$ 22,406	$ 1,425,000	0.49%	$ 111
2000	12,866	281,708,570	21,896	1,165,000	0.41%	91
2001	12,866	293,442,212	22,808	890,000	0.30%	69
2002	12,866	296,158,003	23,019	605,000	0.20%	47
2003	12,866	293,444,987	22,808	310,000	0.11%	24
2004	12,866	294,130,868	22,861	3,500,000 (3)	1.19% (3)	272 (3)

(1) Source: 1999 population estimated by City; 2000-2004, 2000 U.S. Census.
(2) As reported by the Hockley County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.
(3) Projected, includes the Bonds.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution: General Fund	Distribution: Interest and Sinking Fund	Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
1999	$ 0.75510	$ 0.655000	$ 0.100100	$ 1,885,856	97.15%	99.14%
2000	0.77570	0.672500	0.103200	1,886,962	95.81%	99.73%
2001	0.76060	0.659200	0.101400	1,928,709	94.94%	101.20%
2002	0.77630	0.674800	0.101500	1,995,406	95.55%	99.59%
2003	0.80030	0.703900	0.096400	2,062,308	94.81%	98.73%
2004	0.72400	0.628056	0.095944	2,120,519	94.08% (1)	97.83% (1)

(1) Collections for part year only, through May 31, 2004.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2003/2004 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Occidental Permian LTD	Oil Production	$ 10,897,235	3.70%
Southwestern Public Service Company	Electric Utility	4,028,560	1.37%
Valor Telecom	Telephone Utility	3,338,320	1.13%
Levelland Compress & Warehouse Company	Cotton Compress	2,861,770	0.97%
BLI - United #2 LTD	Grocery Store	2,391,330	0.81%
Post-Montgomery Estate	Oil Production	2,227,550	0.76%
Wal-Mart Stores Inc.	Discount Retail	2,202,020	0.75%
Southern Cotton Oil Company	Processing Plant	1,966,550	0.67%
United Super Markets #509	Grocery Store	1,704,320	0.58%
Energas Company	Gas Utility	1,421,030	0.48%
		$ 33,038,685	11.23%

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "The Bonds - Tax Rate Limitation").

TABLE 6 - TAX ADEQUACY(1)

2004 Principal and Interest Requirements........	$ 324,105
$0.1160 Tax Rate at 95% Collection Produces	$ 324,132
Average Annual Principal and Interest Requirements, 2004 - 2025	$ 278,290
$0.0996 Tax Rate at 95% Collection Produces	$ 278,307

(1) Preliminary, subject to change.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2003/04 Taxable Assessed Value	2003/04 Tax Rate	Total G.O. Debt	Estimated % Applicable	City's Overlapping G.O. Debt As of 5-31-04	Authorized but Unissued Debt As of 5-31-04
Levelland, City of	$ 294,130,868	$ 0.7240	$ 3,810,000 (1)	100.00%	$ 3,810,000	$ -
Levelland ISD	734,325,090	1.5000	16,000,000	37.43%	5,988,800	6,000,000
Hockley County	1,611,825,549	0.4052	1,225,000	16.72%	204,820	-
South Plains JCD	1,788,983,849	0.2816	-	11.48%	-	-

Total Direct and Overlapping G.O. Debt	$ 10,003,620
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation	3.40%
Per Capita Overlapping G.O. Debt	$ 778

(1) Projected, includes the Bonds.

DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt (1) Principal	Outstanding Debt (1) Interest	Outstanding Debt (1) Total	The Bonds (2) Principal	The Bonds (2) Interest	The Bonds (2) Total	Total Debt Service Requirements	% of Principal Retired
2004	$ 310,000	$ 14,105	$ 324,105	$ -	$ -	$ -	$ 324,105	
2005			-	80,000	196,963	276,963	276,963	
2006			-	100,000	176,925	276,925	276,925	
2007			-	105,000	171,544	276,544	276,544	
2008			-	110,000	165,900	275,900	275,900	18.50%
2009			-	115,000	159,994	274,994	274,994	
2010			-	125,000	153,694	278,694	278,694	
2011			-	130,000	147,000	277,000	277,000	
2012			-	135,000	140,044	275,044	275,044	
2013			-	145,000	132,694	277,694	277,694	35.56%
2014			-	150,000	124,950	274,950	274,950	
2015			-	160,000	116,813	276,813	276,813	
2016			-	170,000	108,150	278,150	278,150	
2017			-	175,000	99,094	274,094	274,094	
2018			-	185,000	89,644	274,644	274,644	57.61%
2019			-	195,000	79,669	274,669	274,669	
2020			-	205,000	69,169	274,169	274,169	
2021			-	220,000	58,013	278,013	278,013	
2022			-	230,000	46,200	276,200	276,200	
2023			-	240,000	33,863	273,863	273,863	86.22%
2024			-	255,000	20,869	275,869	275,869	
2025			-	270,000	7,088	277,088	277,088	100.00%
	$ 310,000	$ 14,105	$ 324,105	$ 3,500,000	$ 2,298,275	$ 5,798,275	$ 6,122,380	

(1) "Outstanding Debt" does not include lease/purchase obligations.
(2) Average life of the issue - 12.508 years. Interest on the Bonds has been calculated at the rate of 5.25% for purposes of illustration.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-04		$ 324,105
Interest and Sinking Fund, 9-30-03	$ 538,068	
Interest and Sinking Fund Tax Levy @ 95% Collection	87,570	625,638
Estimated Balance, 9-30-04		$ 301,533

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has no authorized but unissued general obligation bonds.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

TABLE 11 – OTHER OBLIGATIONS

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of September 30, 2003, as follows:

Fiscal Year Ended 9/30	Total
2004	$ 3,280
2005	3,280
2006	3,280
2007	3,280
2008	2,695
Thereafter	60,000
Total Minimum Rentals	$ 75,815

The Public Property Finance Act gives the City authority to enter into capital leases for the acquisition of personal property. Principal repayment requirements due after September 30, 2003, are accounted for in the Long-Term Debt Account Group and current principal and interest requirements are recorded in the applicable fund.

Commitments under capitalized lease agreements for equipment provide for minimum future rental payments as of September 30, 2003, as follows:

Fiscal Year Ended 9/30	Total
2004	$ 1,344
2005	1,344
2006	1,344
2007	1,344
2008	336
Total Minimum Rentals	$ 5,712

The effective interest rate on capital leases is 9.810%.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note # L.)

FINANCIAL INFORMATION

TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
Revenues:	2003	2002	2001	2000	1999
Ad Valorem and Motel Taxes	$ 1,694,826	$ 1,625,330	$ 1,554,392	$ 1,518,947	$ 1,521,521
Franchise Fees	537,302	505,493	593,727	451,037	316,349
Sales Tax	1,152,191	1,147,902	1,154,991	1,074,995	996,353
Licenses and Permits	10,593	6,828	6,019	10,648	17,716
Fines and Fees	241,382	270,817	270,086	357,335	333,853
Rents	24,396	24,808	24,211	24,539	26,069
Royalties	22,418	17,926	24,179	24,212	12,930
Interest	39,969	61,138	135,375	145,801	111,717
Main Street Revenue	-	-	2,150	3,967	90
Federal	-	173,679	-	-	1,380,330
State	8,714	9,577	830	-	-
Local	80,274	92,635	30,415	30,000	31,847
Developers Contribution	176,458	-	-	-	-
Sale of Assets	-	11,194	6,029	990	101,845
Miscellaneous	57,941	16,366	47,241	57,081	59,069
Total Revenues	$ 4,046,464	$ 3,963,693	$ 3,849,645	$ 3,699,552	$ 4,909,689
Expenditures:					
Current:					
General Government	735,474	735,187	733,782	620,152	685,425
Public Safety	2,124,155	2,301,186	1,942,200	2,112,280	1,982,003
Highways and Streets	551,465	561,794	671,918	575,957	644,673
Culture and Recreation	257,686	276,716	267,890	252,419	257,082
Economic and Physical Development	120,704	115,066	109,272	109,611	98,726
Airport	64,363	208,468	44,938	35,909	1,406,693
Capital Outlay	210,609	77,937	9,285	85,473	-
Total Expenditures	$ 4,064,456	$ 4,276,354	$ 3,779,285	$ 3,791,801	$ 5,074,602
Excess (deficiency) of revenues (under) expenditures	$ (17,992)	$ (312,661)	$ 70,360	$ (92,249)	$ (164,913)
Other financing sources (uses)					
Operating transfers in	$ 190,000	$ 210,000	$ 219,697	$ 212,500	$ 210,000
Operating transfers out	-	-	(24,366)	-	(500)
Total other financing sources (uses)	$ 190,000	$ 210,000	$ 195,331	$ 212,500	$ 209,500
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ 172,008	$ (102,661)	$ 265,691	$ 120,251	$ 44,587
Fund balances/equity, October 1	$ 2,114,380	$ 2,217,041	$ 1,950,434	$ 1,853,967	$ 1,750,491
Increase (decrease) in fund balance	$ -	$ -	$ 916	$ (23,784)	$ 58,889
Fund balances/equity, September 30	$ 2,286,388	$ 2,114,380	$ 2,217,041	$ 1,950,434	$ 1,853,967

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On January, 1992, the voters of the City approved the imposition of an additional sales and use tax of three-eighths of one percent (⅜% of 1%) for economic development and an additional one-eighth of one percent (⅛ of 1%) for property tax reduction. Collection for the additional tax went into effect on July, 1992. The sales tax for economic development is collected solely for the benefit of the Levelland Economic Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation.

Fiscal Year Ended 9/30	Total Collected (1)	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita (2)
1999	$ 982,957	52.12%	$ 0.3414	$ 76
2000	1,039,673	55.10%	0.3705	81
2001	1,117,631	57.95%	0.3820	87
2002	1,119,936	56.13%	0.3787	87
2003	1,145,600	55.55%	0.3910	89
2004	797,083 (3)	37.59%	0.2710	62

(1) Includes the sales tax for reduction of property taxes; does not include the sales tax for economic development.
(2) Based on 2000 U.S. Census population estimate.
(3) Partial collections through May, 2004.

FINANCIAL POLICIES

Basis of Accounting . . .The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt.

The accrual basis of accounting is utilized by proprietary funds. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

General Fund Balance . . .The City's unwritten policy is to maintain surplus and unencumbered funds equal to three months of expenditures combined in the General Fund and other funds of the City. This allows the City to avoid interim borrowing pending tax receipts.

Use of Bond Proceeds, Grants, etc . . .The City policy is to use bond proceeds, grants, revenue sharing or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

Budgetary Procedures . . .Prior to September 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted with public notice being given within statutory limits for the purpose of obtaining taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance. The City Manager may at any time with the approval of the City Council transfer any unencumbered appropriation balance or portion thereof between general classifications of expenditures within an office, department, or agency. At the request of the City Manager the City Council may transfer any unencumbered appropriation balance or portion thereof from one office, department, or agency to another at any time. Budget appropriations lapse at year end.

INVESTMENTS

The City invests its investable 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's 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 and interest of which is 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 domiciled in the State of Texas, a savings bank domiciled in the State of Texas, or a state or federal credit union domiciled in the State of Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) certain 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 with a stated maturity of 270 days or less 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 U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated 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, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, 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. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in no-load mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 14 - CURRENT INVESTMENTS

As of May 31, 2004, the City's investable funds were invested in the following categories:

Description	Book Value	Market Value	Maturity
TexPool	$ 55,272	$ 55,272	Liquid
MBIA Texas Class	2,808	2,808	Liquid
Savings Accounts	1,069,344	1,069,344	Liquid
Certificates of Deposit	6,304,619	6,311,473	June, 2004
Total	$ 7,376,770	$ 7,383,624	

As of such date, 100% of the City's investment portfolio will mature within 30 days. The market value of the investment portfolio was approximately 100.09% of its purchase price.

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for tax years beginning after 1989, for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the City as the "taxpayer, " and the Owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the Owners. 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 its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds) which are designated by an issuer, such as the City, as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000.

The City has designated the Bonds as "qualified tax-exempt obligations" and certified its expectation that the above-described $10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, twenty percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds will not be deductible pursuant to section 291 of the Code.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

OTHER INFORMATION

RATINGS

The Bonds are rated "A-" by S&P. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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 exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. 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 capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such statues, documents and ordinances for further information. Reference is made to original documents in all respects.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations because the City has not issued more than $10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. Pursuant to the exemption, the City in the Ordinance has 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 to any person on request or at least annually to certain information vendors, 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 financial information and operating data which is customarily prepared by the City and is publicly available to any person upon request made to the City in writing; provided that the City reserves the right at any time to commence making filings of such information with the Texas State Information Depository (the "SID") in lieu of providing such information to persons upon request. 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 Tables numbered 1 through 6 and 8 through 14 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2004.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. 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 unaudited financial information and operating data which is customarily prepared by the City by the required time and audited financial statements when and if such audited financial statements become available. 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 regulation.

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 nationally recognized municipal securities information repository ("NRMSIR") and the SID of the change.

The Municipal Advisory Council of Texas has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P. O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

MATERIAL EVENT NOTICES . . . The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes. (Neither the Bonds or the Ordinance make any provision for debt service reserves, credit enhancement or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports. " The City will provide each notice described in this paragraph to the 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 upon request or to the SID, and with respect to material event notices, to the SID and either each NRMSIR or the MSRB.

Information agreed to be provided by the City on request may be obtained by contacting the City Manager at P.O. Box 1010, Levelland, Texas 79336 or (806) 894-0113.

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 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. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering 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 . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company may submit a bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

INITIAL PURCHASER

After requesting competitive bids for the Bonds, the City accepted the bid of ______________________ (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the (inside) cover page of the Official Statement at a price of par plus a cash premium (if any) of $____________. The Purchaser(s) can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

The Ordinance authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Purchaser.

HUGH L. BRADLEY
Mayor
City of Levelland, Texas

ATTEST:

CHRIS WADE
City Secretary

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City of Levelland is a mineral-producing and agricultural area, the county seat of Hockley County and principal commercial center located 25 miles west of Lubbock at the intersection of U.S. Highway 385 and State highway 114. Levelland functions both as a self-sustained community with its own employment base and as a bedroom community to the Lubbock metropolitan area. Because of the proximity to Lubbock, citizens can enjoy the benefits of small town life while being able to access the economic, educational and cultural amenities of a mid-sized city.(1) The 2000 U.S. Census population was 12,866.

Hockley County is a northwest Texas county traversed by U.S. Highways 62/82 and 385. State Highway 114 and seven farm-to-market roads. The economy is based on agriculture and mineral production. The Texas Almanac designates cotton, sorghum, cattle, hogs and wine grapes as principal sources of agricultural income. The county is one of the states leading producers of cotton. Principal manufactured products are petroleum products and cottonseed oil products.

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(1) Levelland Economic Development Corp.

HISTORICAL EMPLOYMENT DATA

	Annual Averages				
	2003	2002	2001	2000	1999
Hockley County					
Civilian Labor Force	10,386	10,696	11,022	10,887	10,850
Total Employment	9,895	10,218	10,648	10,457	10,122
Unemployment	491	478	374	430	728
Percent Unemployment	4.7%	4.5%	3.4%	3.9%	6.7%
State of Texas					
Civilian Labor Force	11,006,017	10,750,664	10,559,676	10,391,271	10,219,113
Total Employment	10,284,203	10,069,800	10,048,069	9,950,535	9,746,879
Unemployment	721,814	680,864	511,607	440,736	472,234
Percent Unemployment	6.6%	6.3%	4.8%	4.2%	4.6%

Source: Texas Workforce Commission

EFFECTIVE BUYING INCOME

Hockley County		
% of Population Whose Age is:		
18-24		12.4%
25-34		10.8%
35-49		20.4%
50 and Over		28.5%
Households		13,000
Median Household Effective Buying Income	$	29,237
Total Effective Buying Income ($000)	$	297,250
% of Households by EBI Group		
$20,000 - $34,999		30.0%
$35,000 - $49,999		17.2%
$50,000 and Over		21.6%
Buying Power Index		0.0059
Total Retail Sales ($000)	$	197,603

Source: Sales & Marketing Management - 2003 Survey of Buying Power and Media Markets

APPENDIX B

EXCERPTS FROM THE

CITY OF LEVELLAND, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2003

The information contained in this Appendix consists of excerpts from the City of Levelland, Texas Annual Financial Report for the Year Ended September 30, 2003, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

JEFF B. PATE, C.P.A.
KEITH DOWNS, C.P.A.
RORY WAIDE, C.P.A.

PATE, DOWNS & WAIDE P.C.
CERTIFIED PUBLIC ACCOUNTANTS
PHONE 806 / 894-8568 FAX 806 / 894-3486
P.O. BOX 1255 1008 AUSTIN STREET LEVELLAND, TEXAS 793[illegible]

November 18, 2003

Independent Auditor's Report on Financial Statements

City Council
City of Levelland, Texas
1709 Avenue H
Levelland, Texas 79336

Members of the City Council:

We have audited the accompanying general purpose financial statements of City of Levelland, Texas, as of and for the year ended September 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of City of Levelland, Texas's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of City of Levelland, Texas as of September 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds 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 November 18, 2003, on our consideration of City of Levelland, Texas's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with GOVERNMENT AUDITING STANDARDS and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of City of Levelland, Texas taken as a whole. The accompanying combining and individual fund financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,

Keith Downs

Pate, Downs & Waide P.C.

General Purpose Financial Statements

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 2003

	Governmental Fund Types			
ASSETS AND OTHER DEBITS	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
ASSETS:				
Cash	$ 93,674	$ 135,932	$ 3,225	$ 243,797
Restricted Cash	--	--	--	--
Temporary Investments	2,212,815	429,087	534,458	590,647
Delinquent Taxes Receivable (Net)	112,218	6,827	24,926	--
Accounts Receivable	219,490	8,340	--	30,519
Special Assessments & Liens - Paving	17,508	--	--	--
Allowance for Uncollectibles	--	--	--	(3,621)
Inventory	--	--	--	--
Accrued Interest Receivable	1,591	311	385	425
Due From Other Funds	--	--	--	--
Due From State	--	3,489	--	--
Deferred Expenditures	--	--	--	--
Property and Equipment:				
Land	--	--	--	--
Buildings	--	--	--	--
Improvements	--	--	--	--
Machinery and Equipment	--	--	--	--
Accumulated Depreciation	--	--	--	--
Investment in Water Source	--	--	--	--
Less: Amortization	--	--	--	--
Amount Available for Retirement of General Long-Term Debt	--	--	--	--
Amount to be Provided for Retirement of General Long-Term Debt	--	--	--	--
Total Assets	$ 2,657,296	$ 583,986	$ 562,994	$ 861,767

The accompanying notes are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise Fund	Internal Service Funds	Trust and Agency Funds	General Fixed Assets	General Long-Term Debt	September 30, 2003	September 30, 2002
$ 373,090	$ 173,316	$ 253,132	$ --	$ --	$ 1,276,166	$ 506,952
--	--	--	--	--	--	6,134
2,818,362	791,499	200,693	--	--	7,577,561	7,372,160
--	--	--	--	--	143,971	130,719
896,355	--	--	--	--	1,154,704	1,032,059
--	--	--	--	--	17,508	17,508
(297,688)	--	--	--	--	(301,309)	(246,584)
21,318	--	--	--	--	21,318	52,293
2,030	570	--	--	--	5,312	--
--	151,691	--	--	--	151,691	449,542
--	--	27,691	--	--	31,180	184,198
--	--	--	--	--	--	16,322
510,739	--	--	777,436	--	1,288,175	1,288,175
520,999	--	--	341,689	--	862,688	852,566
8,936,324	--	--	11,304,248	--	20,240,572	19,720,712
1,004,545	--	--	2,647,709	--	3,652,254	3,565,621
(4,139,046)	--	--	--	--	(4,139,046)	(3,891,070)
6,644,336	--	--	--	--	6,644,336	6,644,336
(2,392,608)	--	--	--	--	(2,392,608)	(2,241,644)
--	--	--	--	310,000	310,000	564,805
--	--	--	--	4,656	4,656	40,195
$ 14,898,756	$ 1,117,076	$ 481,516	$ 15,071,082	$ 314,656	$ 36,549,129	$ 36,064,999

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 2003

	Governmental Fund Types			
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds
LIABILITIES:				
Accounts Payable - Trade	$ 16,293	$ 3,974	$ --	$ --
Deferred Revenue	112,217	7,722	24,926	--
Deferred Insurance Recovery	--	--	--	24,868
Accrued Wages	51,905	1,761	--	--
Payroll Deductions - Payable	45,434	1,340	--	--
User Deposits	--	--	--	--
Notes Payable	--	--	--	--
Bonds Payable	--	--	--	--
Bond Escrow Accounts Payable	12,494	--	--	--
Due To Other Funds	132,565	--	--	--
Due To Other Governments	--	--	--	--
Due To Other Agencies	--	--	--	--
Total Liabilities	370,908	14,797	24,926	24,868
FUND BALANCES:				
Unreserved Fund Balance	2,279,850	--	--	--
Designated for Special Purposes	--	569,189	--	--
Designated for Debt Retirement	--	--	538,068	--
Reserved - Expansion/Improvements	6,538	--	--	836,899
Retained Earnings - Unreserved	--	--	--	--
Retained Earnings - Reserved Water Source	--	--	--	--
Retained Earnings - Reserved Insurance Claims Fund	--	--	--	--
Retained Earnings - Reserved				
Retained Earnings - Reserved Capital Equipment Fund	--	--	--	--
Retained Earnings - Reserved TNRCC	--	--	--	--
Investment in General Fixed Assets	--	--	--	--
Total Fund Balances	2,286,388	569,189	538,068	836,899
Total Liabilities and Fund Balances	$ 2,657,296	$ 583,986	$ 562,994	$ 861,767

The accompanying notes are an integral part of this statement.

Proprietary	Fund Types	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
Enterprise Fund	Internal Service Funds	Trust and Agency Funds	General Fixed Assets	General Long-Term Debt	September 30, 2003	September 30, 2002
$ 157,975	$ --	$ --	$ --	$ --	$ 178,242	$ 179,654
--	--	--	--	--	144,865	131,714
--	--	--	--	--	24,868	77,590
10,325	--	--	--	--	63,991	59,167
9,622	--	--	--	--	56,396	50,081
113,672	--	--	--	--	113,672	109,622
--	--	--	--	4,656	4,656	--
3,267,950	--	--	--	310,000	3,577,950	4,007,344
--	--	--	--	--	12,494	13,803
19,126	--	--	--	--	151,691	449,542
--	--	--	--	--	--	2,250
--	--	457,867	--	--	457,867	441,156
3,578,670	--	457,867	--	314,656	4,786,692	5,521,923
--	--	--	--	--	2,279,850	2,107,842
--	--	--	--	--	569,189	487,525
--	--	--	--	--	538,068	564,805
--	--	--	--	--	843,437	628,601
10,679,555	--	--	--	--	10,679,555	10,253,386
640,531	--	--	--	--	640,531	611,230
--	334,503	--	--	--	334,503	329,628
--	782,573	--	--	--	782,573	759,689
--	--	23,649	--	--	23,649	22,876
--	--	--	15,071,082	--	15,071,082	14,777,494
11,320,086	1,117,076	23,649	15,071,082	--	31,762,437	30,543,076
$ 14,898,756	$ 1,117,076	$ 481,516	$ 15,071,082	$ 314,656	$ 36,549,129	$ 36,064,999

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED SEPTEMBER 30, 2003

	Governmental	
	General Fund	Special Revenue Funds
REVENUES:		
Ad Valorem and Motel Taxes	$ 1,694,826	$ 108,232
Franchise Fees	537,302	--
Sales Tax	1,152,191	--
Licenses and Permits	10,593	--
Fines and Fees	241,382	--
Rents	24,396	--
Royalties	22,418	5,608
Interest	39,969	8,175
Cemetery Spaces	--	60,330
Open and Close Graves	--	73,100
Federal	--	--
State	8,714	7,234
Local	80,274	28,740
Seized Funds	--	2,968
Building Security	--	5,237
Time Payment Fees	--	985
Sale of Assets	--	--
Developers Contribution	176,458	--
Wastewater Revenue	--	--
Utility Long/Short	--	--
Miscellaneous	57,941	7,943
Total Revenues	4,046,464	308,552
EXPENDITURES:		
Current:		
General government	735,474	201,680
Public Safety	2,124,155	6,049
Highways and streets	551,465	--
Culture and recreation	257,686	7,573
Economic and physical development	120,704	11,485
Airport	64,363	--
Capital Outlay	210,609	--
Debt service:		
Principal	--	--
Interest and fiscal charges	--	--
Grant Distributions	--	100
Total expenditures	4,064,456	226,887
Excess (deficiency) of revenues (under) expenditures	(17,992)	81,665
Other financing sources (uses):		
Operating transfers in	190,000	4,000
Operating transfers out	--	(4,000)
Total other financing sources (uses)	190,000	--
Excess of revenues and other financing sources over (under) expenditures and other financing uses	172,008	81,665
Fund balances/equity, October 1	2,114,380	487,524
Fund balances/equity, September 30	$ 2,286,388	$ 569,189

The accompanying notes are an integral part of this statement.

	Fund Types		Totals (Memorandum Only)	
	Debt Service Fund	Capital Projects Funds	September 30, 2003	September 30, 2002
	$ 285,669	$ --	$ 2,088,727	$ 2,038,845
	--	--	537,302	505,493
	--	--	1,152,191	1,147,902
	--	--	10,593	6,828
	--	--	241,382	270,817
	--	3,220	27,616	27,948
	--	--	28,026	22,373
	10,547	10,727	69,418	93,647
	--	--	60,330	29,605
	--	--	73,100	54,550
	--	--	--	323,679
	--	--	15,948	13,878
	--	--	109,014	121,473
	--	--	2,968	270
	--	--	5,237	6,287
	--	--	985	853
	--	--	--	11,194
	--	--	176,458	--
	--	180,886	180,886	80,271
	--	3	3	--
	--	--	65,884	24,683
	296,216	194,836	4,846,068	4,780,596
	--	--	937,154	910,201
	--	--	2,130,204	2,305,269
	--	--	551,465	561,794
	--	--	265,259	297,511
	--	--	132,189	129,321
	--	--	64,363	208,468
	--	--	210,609	303,042
	295,000	--	295,000	285,000
	27,953	--	27,953	40,351
	--	--	100	133
	322,953	--	4,614,296	5,041,090
	(26,737)	194,836	231,772	(260,494)
	--	20,000	214,000	285,755
	--	--	(4,000)	(650)
	--	20,000	210,000	285,105
	(26,737)	214,836	441,772	24,611
	564,805	622,063	3,788,772	3,764,162
	$ 538,068	$ 836,899	$ 4,230,544	$ 3,788,773

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED SEPTEMBER 30, 2003

	Budgeted General Funds		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Ad Valorem and Motel Taxes	$ 1,686,878	$ 1,694,826	$ 7,948
Franchise Fees	494,500	537,302	42,802
Sales Tax	1,068,800	1,152,191	83,391
Licenses and Permits	7,200	10,593	3,393
Fines and Fees	256,000	241,382	(14,618)
Rents	26,000	24,396	(1,604)
Royalties	18,500	22,418	3,918
Interest	63,150	38,582	(24,568)
Cemetery Spaces	--	--	--
Open and Close Graves	--	--	--
Main Street Revenue	1,500	--	(1,500)
State	10,000	8,714	(1,286)
Local	40,000	80,274	40,274
Seized Funds	--	--	--
Building Security	--	--	--
Time Payment Fees	--	--	--
Sale of Assets	2,500	--	(2,500)
Developers Contribution	--	176,458	176,458
Miscellaneous	29,800	57,941	28,141
Total Revenues	3,704,828	4,045,077	340,249
EXPENDITURES:			
Current:			
General government	899,489	735,474	164,015
Public Safety	2,388,362	2,124,155	264,207
Highways and streets	696,382	551,465	144,917
Culture and recreation	299,185	257,686	41,499
Economic and physical development	125,673	120,704	4,969
Airport	90,000	64,363	25,637
Capital Outlay	--	210,609	(210,609)
Debt service:			
Principal	--	--	--
Interest and fiscal charges	--	--	--
Total expenditures	4,499,091	4,064,456	434,635
Excess (deficiency) of revenues (under) expenditures	(794,263)	(19,379)	774,884
Other financing sources (uses):			
Operating transfers in	210,000	190,000	(20,000)
Operating transfers out	--	--	--
Total other financing sources (uses)	210,000	190,000	(20,000)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(584,263)	170,621	754,884
Fund balances/equity, October 1	1,455,422	2,021,998	566,576
Fund balances/equity, September 30	$ 871,159	$ 2,192,619	$ 1,321,460

The accompanying notes are an integral part of this statement.

Budgeted Special Revenue Funds			Debt Service Fund		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ 106,462	$ 108,232	$ 1,770	$ 287,723	$ 285,669	$ (2,054)
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
4,000	5,608	1,608	--	--	--
6,090	8,135	2,045	17,500	10,547	(6,953)
25,000	60,330	35,330	--	--	--
40,000	73,100	33,100	--	--	--
--	--	--	--	--	--
--	5,649	5,649	--	--	--
23,700	21,340	(2,360)	--	--	--
--	2,968	2,968	--	--	--
6,500	5,237	(1,263)	--	--	--
1,000	985	(15)	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
6,600	7,043	443	--	--	--
219,352	298,627	79,275	305,223	296,216	(9,007)
222,621	201,680	20,941	--	--	--
28,765	6,049	22,716	--	--	--
--	--	--	--	--	--
125,000	6,289	118,711	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	--	--	--
--	--	--	295,000	295,000	--
--	--	--	28,233	27,953	280
376,386	214,018	162,368	323,233	322,953	280
(157,034)	84,609	241,643	(18,010)	(26,737)	(8,727)
--	--	--	--	--	--
--	(4,000)	(4,000)	--	--	--
--	(4,000)	(4,000)	--	--	--
(157,034)	80,609	237,643	(18,010)	(26,737)	(8,727)
276,164	487,216	211,052	562,508	564,805	2,297
$ 119,130	$ 567,825	$ 448,695	$ 544,498	$ 538,068	$ (6,430)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL ALL GOVERNMENTAL FUND TYPES YEAR ENDED SEPTEMBER 30, 2003

	Budgeted Capital Projects Funds		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Ad Valorem and Motel Taxes	$ --	$ --	$ --
Franchise Fees	--	--	--
Sales Tax	--	--	--
Licenses and Permits	--	--	--
Fines and Fees	--	--	--
Rents	2,750	3,220	470
Royalties	--	--	--
Interest	600	1,153	553
Cemetery Spaces	--	--	--
Open and Close Graves	--	--	--
Main Street Revenue	--	--	--
State	--	--	--
Local	--	--	--
Seized Funds	--	--	--
Building Security	--	--	--
Time Payment Fees	--	--	--
Sale of Assets	--	--	--
Developers Contribution	--	--	--
Miscellaneous	--	--	--
Total Revenues	3,350	4,373	1,023
EXPENDITURES:			
Current:			
General government	--	--	--
Public Safety	--	--	--
Highways and streets	--	--	--
Culture and recreation	--	--	--
Economic and physical development	--	--	--
Airport	--	--	--
Capital Outlay	32,867	--	32,867
Debt service:			
Principal	--	--	--
Interest and fiscal charges	--	--	--
Total expenditures	32,867	--	32,867
Excess (deficiency) of revenues (under) expenditures	(29,517)	4,373	33,890
Other financing sources (uses):			
Operating transfers in	--	20,000	20,000
Operating transfers out	--	--	--
Total other financing sources (uses)	--	20,000	20,000
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(29,517)	24,373	53,890
Fund balances/equity, October 1	42,701	49,991	7,290
Fund balances/equity, September 30	$ 13,184	$ 74,364	$ 61,180

The accompanying notes are an integral part of this statement.

Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)
$ 2,081,063	$ 2,088,727	$ 7,664
494,500	537,302	42,802
1,068,800	1,152,191	83,391
7,200	10,593	3,393
256,000	241,382	(14,618)
28,750	27,616	(1,134)
22,500	28,026	5,526
87,340	58,417	(28,923)
25,000	60,330	35,330
40,000	73,100	33,100
1,500	--	(1,500)
10,000	14,363	4,363
63,700	101,614	37,914
--	2,968	2,968
6,500	5,237	(1,263)
1,000	985	(15)
2,500	--	(2,500)
--	176,458	176,458
36,400	64,984	28,584
4,232,753	4,644,293	411,540
1,122,110	937,154	184,956
2,417,127	2,130,204	286,923
696,382	551,465	144,917
424,185	263,975	160,210
125,673	120,704	4,969
90,000	64,363	25,637
32,867	210,609	(177,742)
295,000	295,000	--
28,233	27,953	280
5,231,577	4,601,427	630,150
(998,824)	42,866	1,041,690
210,000	210,000	--
--	(4,000)	(4,000)
210,000	206,000	(4,000)
(788,824)	248,866	1,037,690
2,336,795	3,124,010	787,215
$ 1,547,971	$ 3,372,876	$ 1,824,905

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS AND FUND BALANCES ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND YEAR ENDED SEPTEMBER 30, 2003

	Proprietary Fund Types	
	Enterprise Fund	Internal Service Funds
OPERATING REVENUES:		
Rents	$ 17,272	$ --
Street Light Revenue	125,632	--
Refuse Collection Revenue	1,213,955	--
Water Revenue	1,802,404	--
Sewer Revenue	570,153	--
Developers Contributions	103,503	--
Miscellaneous	86,014	--
Total Operating Revenues	3,918,933	--
OPERATING EXPENSES:		
Administration	248,181	--
Water Production	1,465,073	--
Wastewater Collection	407,561	--
Sanitation	1,128,028	--
Swimming Pool	54,217	--
Total Operating Expenses	3,303,060	--
Operating Income (Loss)	615,873	--
NON-OPERATING REVENUES (EXPENSES):		
Interest Income	45,350	27,759
State Revenues	--	--
Gain on Investments	--	--
Gain/(Loss) on Disposal of Assets	4,247	--
Total Non-operating Revenues (Expenses)	49,597	27,759
Net Income (Loss) before Operating Transfers	665,470	27,759
TRANSFERS:		
Operating transfers in	--	--
Operating transfers out	(210,000)	--
Total Transfers	(210,000)	--
Net income	455,470	27,759
Retained earnings/fund balances, October 1	10,864,616	1,089,317
Retained earnings/fund balances, September 30	$ 11,320,086	$ 1,117,076

The accompanying notes are an integral part of this statement.

Similar Trust Funds Nonexpendable Trust Fund	Totals (Memorandum Only) September 30, 2003	Totals (Memorandum Only) September 30, 2002
$ --	$ 17,272	$ 18,449
--	125,632	125,238
--	1,213,955	1,185,638
--	1,802,404	1,645,872
--	570,153	518,005
--	103,503	--
--	86,014	67,144
--	3,918,933	3,560,346
--	248,181	264,238
--	1,465,073	1,619,611
--	407,561	421,785
--	1,128,028	1,094,180
--	54,217	47,213
--	3,303,060	3,447,027
--	615,873	113,319
--	73,109	109,785
--	--	58,000
773	773	1,385
--	4,247	756
773	78,129	169,926
773	694,002	283,245
--	--	--
--	(210,000)	(210,000)
--	(210,000)	(210,000)
773	484,002	73,245
22,876	11,976,809	11,903,564
$ 23,649	$ 12,460,811	$ 11,976,809

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
YEAR ENDED SEPTEMBER 30, 2003

	Proprietary Fund Types	
	Enterprise Fund	Internal Service Funds
Cash Flows from Operating Activities:		
Cash Received from Customers	$ 3,811,692	$ --
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	--	(2,375)
Cash Payments to Employees for Services	(559,456)	--
Cash Payments to Other Suppliers for Goods and Services	(2,097,533)	--
Other Cash Receipts (Payments)	--	(230)
Net Cash Provided (Used) by Operating Activities	1,154,703	(2,605)
Cash Flows from Non-capital Financing Activities:		
Operating Transfers From (To) Other Funds	(210,000)	--
Net Cash Provided (Used) by Non-capital Financing Activities	(210,000)	--
Cash Flows from Capital and Related Financing Activities:		
Capital Grant From State	--	--
Principal and Interest Paid	(289,777)	--
Acquisition or Construction of Capital Assets	(328,586)	--
Proceeds from Sale of Capital Assets	--	--
Residutal Equity Transfer (To) Other Funds	--	--
Net Cash Provided (Used) for Capital & Related Financing Activities	(618,363)	--
Cash Flows from Investing Activities:		
Loans Made to Other Funds	--	--
Gain on Investments	--	--
Principal Received on Loans to Other Funds	--	143,250
Interest and Dividends on Investments	45,350	27,759
Net Cash Provided (Used) for Investing Activities	45,350	171,009
Net Increase (Decrease) in Cash and Cash Equivalents	371,690	168,404
Cash and Cash Equivalents at Beginning of Year	2,819,763	796,411
Cash and Cash Equivalents at End of Year	$ 3,191,453	$ 964,815
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	$ 771,257	$ --
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	257,782	--
Amortization	150,965	
Provision for Uncollectible Accounts	51,755	--
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables	--	--
Decrease (Increase) in Accrued Interest	(103,974)	(570)
Decrease (Increase) in Inventories	30,976	--
Decrease (Increase) in Prepaid Expenses	16,322	--
Increase (Decrease) in Accounts Payable	8,851	--
Increase (Decrease) in Payroll Deductions	1,498	--
Increase (Decrease) in Accrued Wages Payable	1,618	--
Increase (Decrease) in Due to Other Funds	(26,870)	(2,035)
Increase (Decrease) in Interfund Payables	--	--
Increase (Decrease) in Deferred Revenue	(5,476)	--
Total Adjustments	383,446	(2,605)
Net Cash Provided (Used) by Operating Activities	$ 1,154,703	$ (2,605)

The accompanying notes are an integral part of this statement.

Similar Trust Funds Nonexpendable Trust Fund	Totals (Memorandum Only) September 30 2003	September 30 2002
$ --	$ 3,811,692	$ 3,570,399
--	(2,375)	(175)
--	(559,456)	(535,141)
--	(2,097,533)	(2,337,148)
--	(230)	--
--	1,152,098	697,935
--	(210,000)	(210,000)
--	(210,000)	(210,000)
--	--	58,000
--	(289,777)	(342,415)
--	(328,586)	(205,455)
--	--	2,200
--	--	(489,000)
--	(618,363)	(976,670)
--	--	(59,287)
773	773	--
--	143,250	141,372
--	73,109	109,785
773	217,132	191,870
773	540,867	(296,865)
22,876	3,639,050	3,935,914
$ 23,649	$ 4,179,917	$ 3,639,049
$ --	$ 771,257	$ 303,403
--	257,782	236,228
	150,965	150,965
--	51,755	54,161
--	--	4,577
--	(104,544)	--
--	30,976	(12,014)
--	16,322	(16,322)
--	8,851	(5,314)
--	1,498	1,157
--	1,618	911
--	(28,905)	(25,292)
--	--	--
--	(5,476)	5,476
--	380,841	394,533
$ --	$ 1,152,098	$ 697,936

A. Summary of Significant Accounting Policies

The combined financial statements of City of Levelland, Texas (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's combined financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on these criteria, the City has no component units. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation - Fund Accounting

City accounts are organized on the basis of fund and account groups, each of which is considered a separate accounting entity. The City has established several fund groups that are organized by subfunds within a separate set of self-balancing accounts comprised of assets, liabilities, fund balance, revenues and expenditures or expenses as appropriate. Governmental resources allocated to individual funds are recorded for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The fund types and funds utilized by the City are described below:

a. Governmental fund types include the following:

General Fund - is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds are accounted for in this fund.

Special Revenue Funds - are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Normally, unused balances are returned to the grantor at the close of specified project periods.

Debt Service Fund - is used to account for tax revenues and for the payment of principal, interest and related costs on long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Capital Projects Fund - is used to account for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

b. Proprietary fund types include the following:

Enterprise Fund - is used to account for revenues and expenses related to goods or services sold to parties outside the City.

Internal Service Funds - are used to account for revenues and expenses related to services provided to parties inside the City. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The City has chosen to apply future FASB standards.

c. The Fiduciary fund type includes the following:

Nonexpendable Trust Funds - are used to account for donations which have stipulations that the principal may not be expended; only the income may be used for a specific purpose.

Agency Funds - the City uses Agency Funds to account for resources held for others in a custodial capacity.

d. Account Groups include the following:

General Fixed Assets Account Group - is used to account for general fixed assets acquired for general purposes.

General Long-Term Debt Account Group - is used to account for the outstanding principal balances of long-term general obligation bonds and other long-term obligations of the City.

3. Basis of Accounting

The City accounts for property and equipment and long-term liabilities of the governmental and similar trust funds through the following account groups: the General Fixed Assets Account Group (GFAAG) and the General Long-Term Debt Account Group (GLTDAG). Property and equipment of proprietary and similar trust funds are accounted for in those funds. Fixed assets are recorded at historical cost or estimated market value, if donated. Fixed assets in the GFAAG are not depreciated. Fixed assets accounted for in proprietary and similar trust funds are depreciated using the straight-line method based on lives ranging from three to ten years. Interest expense during construction of assets is capitalized. The City has adopted the accounting policy of capitalizing most public domain (infrastructure) general fixed assets that are immovable and of value only to the City.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund Types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund Types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The City considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property and sales taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

The Proprietary Fund Type and Nonexpendable Trust Fund are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components.

4. Budgetary Data

   Formal budgetary accounting is employed as a management control for specific funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General Fund, various Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds.

   Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

5. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

6. The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

7. Comparative Data - comparative totals for the prior year have been prepared in the accompanying general purpose financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data (presentation of prior year amounts by fund type) in each of the statements has not been included, since their inclusion would make the combined statements unduly complex and difficult to read.

8. Memorandum Only - the total columns presented in the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. No consolidation entries or other eliminations were made and these totals do not purport to present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.

B. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2003, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $1,275,567 and the bank balance was $2,623,778. The City's cash deposits at September 30, 2003 and during the year ended September 30, 2003, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

a. Depository: Citizens Bank, American State Bank and Bank One

b. The market value of securities pledged as of the date of the highest combined balance on deposit was $10,757,733.

c. The highest combined balances of cash, savings and time deposit accounts amounted to $9,621,787 and occurred during the month of May, 2003.

d. Total amount of FDIC coverage at the time of the largest combined balance was $600,000.

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 - Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the City's cash deposits are classified as category 1.

Investments:

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

C. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General, Cemetery and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2003, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

E. Interfund Receivables and Payables

Fund	Receivable	Payable
General Fund:		
Internal Service Fund	$	$ 132,565
Total General Fund	$ --	$ 132,565
Enterprise Fund:		
Internal Service Fund	$ --	$ 19,126
Total Enterprise Fund	$ --	$ 19,126
Internal Service Fund:		
General Fund	$ 132,565	$ --
Enterprise Fund	19,126	--
Total Enterprise Fund	$ 151,691	$ --
Total	$ 151,691	$ 151,691

F. Changes in General Fixed Assets

Activity in the General Fixed Assets Account Group for the City for the year ended September 30, 2003, was as follows:

	Balance September 30 2002	Additions	Deletions	Balance September 30 2003
Land	$ 777,436	$ --	$ --	$ 777,436
Buildings	341,689	--	--	341,689
Improvements	11,061,527	242,721	--	11,304,248
Furniture and Equipment	2,596,842	62,017	11,150	2,647,709
Totals	$ 14,777,494	$ 304,738	$ 11,150	$ 15,071,082

Activity in the Proprietary Fund Fixed Assets for the City for the year ended September 30, 2003 was as follows:

	Balance September 30 2002	Additions	Deletions	Balance September 30 2003
Land	$ 510,739	$ --	$ --	$ 510,739
Buildings	510,877	10,122	--	520,999
Improvements	8,659,185	277,139	--	8,936,324
Furniture and Equipment	968,779	49,616	13,850	1,004,545
Totals	$ 10,649,580	$ 336,877	$ 13,850	$ 10,972,607

G. Changes in General Long-Term Debt

	Balance September 30 2002	Issued	Retired	Balance September 30 2003
General Obligation Bonds	$ 605,000	$ --	$ 295,000	$ 310,000
Totals	$ 605,000	$ --	$ 295,000	$ 310,000

Changes in the Proprietary-Long Term Debt of the City as of September 30, 2003 was as follows:

	Balance September 30 2002	Issued	Retired	Balance September 30 2003
Bonds Payable	$ 3,402,344	$ --	$ 134,394	$ 3,267,950
Totals	$ 3,402,344	$ --	$ 134,394	$ 3,267,950

H. Bonds Payable

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

Bonded indebtedness of the City is reflected in the General Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Effective interest rates on bonds range from 3.65% to 4.55%.

A summary of changes in general long-term debt for the year ended September 30, 2003, is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Outstanding September 30 2002	Issued	Retired	Outstanding September 30 2003
General Obligation Refunding Bond Series 1996	Various	$ 1,765,000	$ 605,000	$	$ 295,000	$ 310,000
Totals			$ 605,000	$ --	$ 295,000	$ 310,000

Debt service requirements are as follows:

Year Ended September 30	General Obligations Principal	Interest	Total Requirements
2004	$ 310,000	$ 14,105	$ 324,105
2005			--
2006			--
2007			--
2008			--
Thereafter			--
Totals	$ 310,000	$ 14,105	$ 324,105

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the City is in compliance with all significant limitations and restrictions.

Proprietary Fund bonded indebtedness of the City is reflected in the Enterprise Fund, and current requirements for principal and interest expenditures are accounted for in that fund. Effective interest rates range from 4.45% to 5.88%.

Debt outstanding as of September 30, 2003, consisted of the following:

	Interest Rate Payable	Maturity Date	Amounts Original Issue	Amounts Outstanding
Canadian River Water Authority 1999 Series Prepayment Bonds	4.75% to 5.875%	10-01-2018	$ 1,527,922	$ 1,226,022
Canadian River Water Authority 1999 Series Revenue and Refunding Bonds	3.80% to 5.625%	02-12-2020	2,370,786	2,041,928
Totals			$ 3,898,708	$ 3,267,950

I. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of September 30, 2003, as follows:

Year Ending September 30:	
2004	$ 3,280
2005	3,280
2006	3,280
2007	3,280

2008		2,695
Thereafter		60,000
Total Minimum Rentals	$	75,815
Rental Expenditures in Fiscal Year 2003	$	3,280

J. Commitments Under Capitalized Leases

The Public Property Finance Act gives the City authority to enter into capital leases for the acquisition of personal property. Principal repayment requirements due after September 30, 2003, are accounted for in the Long-Term Debt Account Group and current principal and interest requirements are recorded in the applicable fund.

Commitments under capitalized lease agreements for equipment provide for minimum future rental payments as of September 30, 2003, as follows:

Year Ending September 30:		
2004	$	1,344
2005		1,344
2006		1,344
2007		1,344
2008		336
Total Minimum Rentals	$	5,712
Rental Expenditures in Fiscal Year 2003	$	1,344

The effective interest rate on capital leases is 9.810%.

K. Accumulated Unpaid Vacation and Sick Leave Benefits

At September 30, 2003, the City had no liability for accrued sick leave or vacation leave. It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation and sick leave, which will be paid to employees upon separation from the City's service. The cost of vacation and sick leave is recognized when payments are made to employees.

L. Pension Plan

1. Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 774 administered by TMRS, an agent multiple-employer public employee retirement system.

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provision for the City were as follows:

Deposit Rate:	6%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City.
The Service Retirement Eligibilities for the city are: 5 yrs/age 60, 20 yrs/any age

Contributions
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 cost 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 amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e December 31, 2002 valuation is effective for rates beginning January 2004).

Actuarial Valuation Date			12/31/2002
Actuarial Value of Assets		(A) $	7,079,347
Actuarial Accrued Liability		(B) $	8,566,645
Percentage Funded		(C)=(A)/(B)	82.6%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)		(D)=(B)-(A) $	1,487,298
Annual Covered Payroll		(E) $	2,315,086
UAAL as a Percentage of Covered Payroll		(D)/(E)	64.2%
Net Pension Obligation (NPO) at the Beginning of Period		$	-0-
Annual Pension Cost:			
Annual required contribution (ARC)	Plus	$	298,354
Contributions Made	Less	$	298,354
NPO at the end of the period		$	-0-

The City of Levelland is one of 774 municipalities having the benefit plan administered by TMRS. Each of the 774 Municipalities have an annual, individual actuarial valuation performed. All assumptions for the 12-31-02 valuations are contained in the 2002 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P. O. Box 149153, Austin, Texas 78714-9153.

M. Health Care Coverage

During the year ended September 30, 2003, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of $289 per month per employee, $149 for children, $237 for spousal coverage or $355 for family coverage to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable December 31, and terms of coverage and premium costs are included in the contractual provisions.

N. Commitments and Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

As a participating member, the City entered into a 40-year contract with the Canadian River Authority whereby the Authority is to make available to the City 762.4 million gallons of raw water annually during each year of normal supply and whereby the City is to pay its pro-rata portion of the reimbursable costs. During periods of water shortage, the amount made available to the City can be curtailed as needed.

Additionally, under the terms of the contract, the City annually pays to the Authority a pumping and energy charge in varying amounts depending on water usage and its share of certain fixed and variable expenses for operation and maintenance.

In 1961, the City of Levelland entered into a contract with the Levelland school system to construct water and sewer lines for the school. Half of the connection fees to this system would be returned to the school system up to a maximum of $7,200. At the balance sheet date, $2,957.32 has been repaid to the school. The likelihood of collection of fees to pay the remainder, $4,242.68, is only reasonably possible and therefore, should not be accrued on the balance sheet.

O. Due From Other Governments

The City participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. Amounts due from federal and state governments as of September 30, 2003, are reported on the combined financial statements as Due from Other Governments and are summarized below:

Fund	State Grants	Federal Grants	Total
Agency	$ 27,691	$ --	$ 27,691
Special Revenue	3,489	--	3,489
Total	$ 31,180	$ --	$ 31,180

P. Closure and Postclosure Care Cost

State and federal laws and regulations required the City to place a final cover on its Levelland Transfer Station site when it stopped accepting waste in 1994 and to perform certain maintenance and monitoring functions at the site for thirty years after closure.

The City was required by state and federal laws and regulations to make annual contributions to a trust to finance postclosure care. The City is in compliance with these requirements, and, at September 30, 2003, investments of $23,649.00 fair value are held for these purposes. These are reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

Q. Refunding Bonds

On February 15, 1996, the City of Levelland issued $1,765 million in General Obligation Refunding Bonds with an average interest rate of 4.2% to advance refund $1,585 million of outstanding 1988 General Obligation Bonds with an average interest rate of 8.8%. The $1,765 million of refunding bonds issued will be used to refund the 1988 issue, and interest due thereon, on the scheduled interest payment dates and the redemption date of such obligations.

The City advance refunded the 1988 General Obligation Bonds to reduce its total debt service payments over the next eight years by $74,337 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $73,475.

R. Deferred Revenue

Deferred revenue at year end consisted of the following:

Revenue Description	Fund	Deferred Amount
Property Taxes	General	$ 112,219
Property Taxes	Special Revenue	6,827
Property Taxes	Debt Service	24,926
State Grant	Special Revenue	895
Insurance Recovery	Capital Projects	24,868
Total Deferred Revenue		$ 169,735

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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IN REGARD TO the authorization and issuance of the "City of Levelland, Texas, General Obligation Bonds, Series 2004" (the "Bonds"), dated July 15, 2004 (the "Bond Date"), in the principal amount of $3,500,000, we have examined into the legality and validity of the issuance thereof by the City of Levelland, Texas (the "City"), which Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof (within a maturity) and mature annually on February 15 in each of the years 2005 through 2025, unless redeemed prior to maturity in accordance with applicable redemption provisions stated in the ordinance authorizing the issuance of the Bonds (the "Ordinance"). The Bonds bear interest on the unpaid principal amount from the Bond Date at the rates per annum stated in the Ordinance, and such interest is payable on February 15 and August 15 in each year, commencing February 15, 2005, to the registered owners shown on the registration books of the Paying Agent/Registrar on the Record Date (stated in the Bonds).

WE HAVE SERVED as Bond Counsel solely to pass upon the legality and validity of the issuance of the Bonds under the Constitution and laws of the State of Texas, and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds. In rendering the opinions herein we have examined and rely upon (i) original or certified copies of the proceedings of the City in connection with the issuance of the Bonds, including the Ordinance, (ii) certifications and opinions of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City, and (iii) such other documentation, including an examination of the Bond executed delivered initially by the City (which we found to be in due form and properly executed), and such matters of law as we deem relevant to the matters discussed below. In such examinations, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies and the accuracy of the statements and information contained in such certificates.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance are valid, legally binding, and enforceable obligations of the City, payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the City, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in

section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes. Interest on all tax-exempt obligations, such as the Bonds, owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust, or a financial asset securitization investment trust) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code is computed.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, owners of interests in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS 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 our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

EHE:gcs